

Exhibit 16

1 UNITED STATES BANKRUPTCY COURT

2 SOUTHERN DISTRICT OF NEW YORK

3 Case No. 08-99000-cgm

4 - - - - - x

5 In the Matter of:

6

7 BERNARD L. MADOFF,

8

9 Debtor.

10 - - - - - x

11 Adv. Case No. 10-03635-cgm

12 - - - - - x

13 Fairfield Sentry Limited (In Liquidation) et al,

14 Plaintiff,

15 v.

16 Union Bancaire Privee, UBP SA et al,

17 Defendants.

18 - - - - - x

19 Adv. Case No. 10-03636-cgm

20 - - - - - x

21 Fairfield Sentry Limited (In Liquidation) et al,

22 Plaintiff,

23 v.

24 Union Bancaire Privee, UBP SA et al,

25 Defendants.

<p style="text-align: right;">Page 2</p> <p>1 ----- x</p> <p>2 Adv. Case No. 10-04285-cgm</p> <p>3 ----- x</p> <p>4 IRVING H. PICARD, Trustee for the Substantively</p> <p>5 Consolidated SIPA Liquidation of Bernard L. Madoff</p> <p>6 Investment Securities LLC and the Chapter 7 Estate of</p> <p>7 Bernard L. Madoff,</p> <p>8 Plaintiff,</p> <p>9 v.</p> <p>10 UBS AG, UBS (Luxembourg) SA et al,</p> <p>11 Defendants.</p> <p>12 ----- x</p> <p>13 Adv. Case No. 10-05345-cgm</p> <p>14 ----- x</p> <p>15 IRVING H. PICARD, Trustee for the Substantively</p> <p>16 Consolidated SIPA Liquidation of Bernard L. Madoff</p> <p>17 Investment Securities LLC and the Chapter 7 Estate of</p> <p>18 Bernard L. Madoff,</p> <p>19 Plaintiff,</p> <p>20 v.</p> <p>21 Citibank, N.A. et al,</p> <p>22 Defendants.</p> <p>23 ----- x</p> <p>24 Adv. Case No. 11-02572-cgm</p> <p>25 ----- x</p>	<p style="text-align: right;">Page 4</p> <p>1 September 14, 2022</p> <p>2 10:02 AM</p> <p>3</p> <p>4</p> <p>5 B E F O R E :</p> <p>6 HON CECELIA G. MORRIS</p> <p>7 U.S. BANKRUPTCY JUDGE</p> <p>8</p> <p>9 ECRO: UNKNOWN</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>
<p style="text-align: right;">Page 3</p> <p>1 IRVING H. PICARD, Trustee for the Substantively</p> <p>2 Consolidated SIPA Liquidation of Bernard L. Madoff</p> <p>3 Investment Securities LLC and the Chapter 7 Estate of</p> <p>4 Bernard L. Madoff,</p> <p>5 Plaintiff,</p> <p>6 v.</p> <p>7 Korea Exchange Bank, Individually And As Trustee,</p> <p>8 Defendants.</p> <p>9 ----- x</p> <p>10 Adv. Case No. 11-02573-cgm</p> <p>11 ----- x</p> <p>12 IRVING H. PICARD, Trustee for the Substantively</p> <p>13 Consolidated SIPA Liquidation of Bernard L. Madoff</p> <p>14 Investment Securities LLC and the Chapter 7 Estate of</p> <p>15 Bernard L. Madoff,</p> <p>16 Plaintiff,</p> <p>17 v.</p> <p>18 The Sumitomo Trust and Banking Co., Ltd.,</p> <p>19 Defendants.</p> <p>20 ----- x</p> <p>21</p> <p>22</p> <p>23 United States Bankruptcy Court</p> <p>24 One Bowling Green</p> <p>25 New York, NY 10004</p>	<p style="text-align: right;">Page 5</p> <p>1 Adversary proceeding: 10-03635-cgm Fairfield Sentry Limited</p> <p>2 (In Liquidation) et al v. Union Bancaire Privee, UBP SA et</p> <p>3 al</p> <p>4 Doc# 939 Notice of Hearing to consider the Letter Requesting</p> <p>5 a Pre-Motion Discovery Conference Filed by David Elsberg on</p> <p>6 behalf of Fairfield Sentry Limited (In Liquidation),</p> <p>7 Fairfield Sigma Limited (In Liquidation), Kenneth Kryss,</p> <p>8 solely in his capacity as Foreign Representative and</p> <p>9 Liquidator thereof, Greig Mitchell, solely in his capacity</p> <p>10 as Foreign Representative and Liquidator thereof (related</p> <p>11 document(s)938) filed by Clerk of Court, United States</p> <p>12 Bankruptcy Court, SDNY. with hearing to be held on</p> <p>13 10/19/2022 at 10:00 AM at Videoconference (ZoomGov) (CGM)</p> <p>14</p> <p>15 Doc. #938 Letter Requesting a Pre-Motion Discovery</p> <p>16 Conference Filed by David Elsberg on behalf of Fairfield</p> <p>17 Sentry Limited (In Liquidation), Fairfield Sigma Limited (In</p> <p>18 Liquidation), Kenneth Kryss, solely in his capacity as</p> <p>19 Foreign Representative and Liquidator thereof, Greig</p> <p>20 Mitchell, solely in his capacity as Foreign Representative</p> <p>21 and Liquidator thereof. (Attachments: # 1 Exhibit A - Email</p> <p>22 Correspondence (2022.05.06 2022.07.14) # 2 Exhibit B -</p> <p>23 Plaintiffs' First Request for Production Of Documents to</p> <p>24 Dexia BIL # 3 Exhibit C - Plaintiffs' Rule 30(b)(6) Notice</p> <p>25 to Dexia BIL (2022.07.21) # 4 Exhibit D - Email</p>

Page 6	Page 8
<p>1 Correspondence (2022.07.21 2022.08.05) # 5 Exhibit E -</p> <p>2 Plaintiffs' Amended Rule 30(b)(6) Notice to Dexia BIL</p> <p>3 (2022.07.28))(Elsberg, David)</p> <p>4</p> <p>5 Doc# 941 Notice of Hearing to consider the Letter Requesting</p> <p>6 a Pre-Motion Discovery Conference Filed by Jeff E. Butler on</p> <p>7 behalf of Dexia Banque International a Luxembourg (related</p> <p>8 document(s)940) filed by Clerk of Court, United States</p> <p>9 Bankruptcy Court, SDNY. with hearing to be held on 9/14/2022</p> <p>10 at 10:00 AM at Videoconference (ZoomGov) (CGM)</p> <p>11</p> <p>12 Doc. #940 Letter Requesting a Pre-Motion Discovery</p> <p>13 Conference Filed by Jeff E. Butler on behalf of Dexia Banque</p> <p>14 International a Luxembourg. (Attachments: # 1 Exhibit 1,</p> <p>15 Email from Nemetz # 2 Exhibit 2, Email from Butler # 3</p> <p>16 Exhibit 3, Email from Nemetz # 4 Exhibit 4, Amended</p> <p>17 Deposition Notice)(Butler, Jeff)</p> <p>18</p> <p>19 Adversary proceeding: 10-03636-cgm Fairfield Sentry Limited</p> <p>20 (In Liquidation) et al v. Union Bancaire Privee, UBP SA et</p> <p>21 al Doc# 1005 Notice of Hearing to consider the Letter</p> <p>22 Requesting a Pre-Motion Discovery Conference Filed by David</p> <p>23 Elsberg on behalf of Fairfield Lambda Limited (In</p> <p>24 Liquidation), Fairfield Sentry Limited (In Liquidation),</p> <p>25 Fairfield Sigma Limited (In Liquidation), Greig Mitchell,</p>	<p>1 E. Butler on behalf of Dexia Banque International a</p> <p>2 Luxembourg. (related document(s)1006) filed by Clerk of</p> <p>3 Court, United States Bankruptcy Court, SDNY. with hearing to</p> <p>4 be held on 9/14/2022 at 10:00 AM at Videoconference</p> <p>5 (ZoomGov) (CGM)</p> <p>6</p> <p>7 Doc. #1006 Letter Requesting a Pre-Motion Discovery</p> <p>8 Conference Filed by Jeff E. Butler on behalf of Dexia Banque</p> <p>9 International a Luxembourg. (Attachments: # 1 Exhibit 1,</p> <p>10 Email from Nemetz # 2 Exhibit 2, Email from Butler # 3</p> <p>11 Exhibit 3, Email from Nemetz # 4 Exhibit 4, Amended</p> <p>12 Deposition Notice)(Butler, Jeff)</p> <p>13</p> <p>14 Adversary proceeding: 10-04285-cgm Irving H. Picard, Trustee</p> <p>15 for the Liquidation of B v. UBS AG, UBS (Luxembourg) SA et</p> <p>16 al</p> <p>17 Doc# 290 Motion to Dismiss Adversary Proceeding (Dismiss</p> <p>18 Second Amended Complaint), filed by Anthony L. Paccione on</p> <p>19 behalf of Access International Advisors LLC, Access</p> <p>20 International Advisors Ltd., Access Management Luxembourg SA</p> <p>21 (f/k/a Access International Advisors Luxembourg) SA) as</p> <p>22 represented by its Liquidator Maitre Ferdinand Entringer,</p> <p>23 Access Partners SA as represented by its Liquidator Maitre</p> <p>24 Ferdinand Entringer, Claudine Magon de la Villehuchet (a/k/a</p> <p>25 Claudine de la Villehuchet) in her capacity as Executrix</p>
Page 7	Page 9
<p>1 solely in his capacity as Foreign Representative and</p> <p>2 Liquidator thereof, Kenneth Krys, solely in his capacity as</p> <p>3 Foreign Representative and Liquidator thereof. (related</p> <p>4 document(s)1004) filed by Clerk of Court, United States</p> <p>5 Bankruptcy Court, SDNY. with hearing to be held on</p> <p>6 10/19/2022 at 10:00 AM at Videoconference (ZoomGov) (CGM)</p> <p>7</p> <p>8 Doc. #1004 Letter Requesting a Pre-Motion Discovery</p> <p>9 Conference Filed by David Elsberg on behalf of Fairfield</p> <p>10 Lambda Limited (In Liquidation), Fairfield Sentry Limited</p> <p>11 (In Liquidation), Fairfield Sigma Limited (In Liquidation),</p> <p>12 Greig Mitchell, solely in his capacity as Foreign</p> <p>13 Representative and Liquidator thereof, Kenneth Krys, solely</p> <p>14 in his capacity as Foreign Representative and Liquidator</p> <p>15 thereof. (Attachments: # 1 Exhibit A - Email Correspondence</p> <p>16 (2022.05.06 2022.07.14) # 2 Exhibit B - Plaintiffs' First</p> <p>17 Request For Production Of Documents to Dexia BIL # 3 Exhibit</p> <p>18 C - Plaintiffs' Rule 30(b)(6) Notice to Dexia BIL</p> <p>19 (2022.07.21) # 4 Exhibit D - Email Correspondence</p> <p>20 (2022.07.21 2022.08.05) # 5 Exhibit E - Plaintiffs' Amended</p> <p>21 Rule 30(b)(6) Notice to Dexia BIL (2022.07.28))(Elsberg,</p> <p>22 David)</p> <p>23</p> <p>24 Doc# 1007 Notice of Hearing to consider the Letter</p> <p>25 Requesting a Pre-Motion Discovery Conference Filed by Jeff</p>	<p>1 under the Will of Thierry Magon de la Villehuchet (a/k/a</p> <p>2 Rene Thierry de la Villehuchet), Claudine Magon de la</p> <p>3 Villehuchet (a/k/a Claudine de la Villehuchet) individually</p> <p>4 as the sole beneficiary under the Will of Thierry Magon de</p> <p>5 la Villehuchet (a/k/a Rene Thierry de la Villehuchet),</p> <p>6 Groupement Financier Ltd., Patrick Littaye.</p> <p>7</p> <p>8 Doc# 295 Motion to Dismiss Case filed by Cathy M. Liu on</p> <p>9 behalf of Theodore Dumbauld.</p> <p>10</p> <p>11 Doc# 302 Motion to Dismiss Adversary Proceeding / Notice of</p> <p>12 UBS Defendants Motion to Dismiss Second Amended Complaint</p> <p>13 (related document(s)274) filed by Marshall R. King on behalf</p> <p>14 of UBS AG, UBS EUROPE SE (f/k/a UBS (LUXEMBOURG) SA, UBS</p> <p>15 Fund Services (Luxembourg) SA, UBS Third Party Management</p> <p>16 Company SA. with hearing to be held on 9/14/2022 at 10:00 AM</p> <p>17 at Videoconference (ZoomGov) (CGM) Responses due by</p> <p>18 6/17/2022</p> <p>19</p> <p>20 Doc# 271 Notice of Adjournment of Hearing RE: Hearing to</p> <p>21 consider the Letter to Chambers Requesting Addition of</p> <p>22 Adversary Proceeding to Omnibus Hearing on January 19, 2022</p> <p>23 Filed by Brett S. Moore on behalf of Luxalpha SICAV as</p> <p>24 represented by its Liquidators Maitre Alain Rukavina and</p> <p>25 Paul LaPlume (related document(s)269) filed by Clerk of</p>

<p style="text-align: right;">Page 10</p> <p>1 Court, United States Bankruptcy Court, SDNY; hearing held 2 and adjourned to 6/15/2022 at 10:00 AM at Videoconference 3 (ZoomGov) (CGM). 4 5 Doc# 307 Opposition /Trustee's Memorandum of Law in 6 Opposition to Defendants' Motions to Dismiss the Second 7 Amended Complaint (related document(s)295, 296, 283, 290, 8 281) filed by Oren Warshavsky on behalf of Irving H. Picard, 9 Trustee for the Liquidation of Bernard L. Madoff Investment 10 Securities LLC, and Bernard L. Madoff. 11 12 Adversary proceeding: 10-05345-cgm Irving H. Picard, Esq., 13 Trustee for the Substantive v. Citibank, N.A. et al 14 Doc# 222 Motion to Dismiss Adversary Proceeding filed by 15 Carmine Boccuzzi on behalf of Citibank, N.A., Citicorp North 16 America, Inc., Citigroup Global Markets Limited. with 17 hearing to be held on 9/7/2022 (check with court for 18 location) Responses due by 7/1/2022, 19 20 Doc# 231 Opposition /Trustee's Memorandum of Law in 21 Opposition to Defendants' Motion to Dismiss (related 22 document(s)222) filed by David J. Sheehan on behalf of 23 Irving H. Picard, Esq., Trustee for the Substantively 24 Consolidated SIPA Liquidation of Bernard L. Madoff 25 Investment Securities LLC, and the Estate of Bernard L.</p>	<p style="text-align: right;">Page 12</p> <p>1 Trust I-1, And For Tams Rainbow Trust III. with hearing to 2 be held on 9/7/2022 at 10:00 AM at Videoconference (ZoomGov) 3 (CGM) (Cirillo, Richard) 4 5 Adversary proceeding: 11-02573-cgm Irving H. Picard, Trustee 6 for the Liquidation of B v. The Sumitomo Trust and Banking 7 Co., Ltd. 8 9 Doc# 119 Stipulation and Order Signed on 5/5/2022 To Amend 10 Briefing Schedule And Adjourn Argument Date to 9/14/2022 at 11 10:00 AM at Videoconference (ZoomGov) (CGM) 12 13 14 15 Transcribed by: Sonya Ledanski Hyde 16 17 18 19 20 21 22 23 24 25</p>
<p style="text-align: right;">Page 11</p> <p>1 Madoff. 2 3 Doc# 234 Reply Memorandum of Law in Support of Citi 4 Defendants' Motion to Dismiss (related document(s)222) filed 5 by Carmine Boccuzzi on behalf of Citibank, N.A., Citicorp 6 North America, Inc., Citigroup Global Markets Limited. 7 8 Adversary proceeding: 11-02572-cgm Irving H. Picard, Trustee 9 for the Liquidation of B v. Korea Exchange Bank, 10 Individually And As Trustee F 11 Doc# 140 Opposition /Trustee's Memorandum of Law in 12 Opposition to Defendant Korea Exchange Bank's Motion to 13 Dismiss the Complaint (related document(s)135) filed by Eric 14 R Fish on behalf of Irving H. Picard, Trustee for the 15 Liquidation of Bernard L. Madoff Investment Securities LLC, 16 and Bernard L. Madoff. 17 18 Doc# 145 Reply to Motion filed by Richard A. Cirillo on 19 behalf of Korea Exchange Bank, Individually and As Trustee 20 For Korea Global All Asset Trust I-1, And For Tams Rainbow 21 Trust III. 22 23 Doc# 144 Amended Motion to Dismiss Adversary Proceeding 24 filed by Richard A. Cirillo on behalf of Korea Exchange 25 Bank, Individually and As Trustee For Korea Global All Asset</p>	<p style="text-align: right;">Page 13</p> <p>1 A P P E A R A N C E S : 2 3 BAKER HOSTETLER LLP 4 Attorney for U.S. Trustee 5 45 Rockefeller Plaza 6 New York, NY 10111 7 8 BY: MICHELLE R. USITALO 9 OREN WARSHAVSKY 10 JESSICA H. FERNANDEZ 11 VICTORIA L. STORK 12 ERIC R. FISH 13 14 GIBSON, DUNN CRUTCHER, LLP 15 Attorney for UBS Defendants 16 200 Park Avenue 17 New York, NY 10166 18 19 BY: MARSHALL R. KING 20 21 CLIFFORD CHANCE US LLP 22 Attorney for Defendant, Banque International a 23 Luxembourg (BIL) 24 31 W 52nd ST 25 New York, NY 10019</p>

Page 14	Page 16
<p>1</p> <p>2 BY: JEFF BUTLER</p> <p>3</p> <p>4 SELENDY GAY ELSBERG PLLC</p> <p>5 Attorneys for Various Fairfield Entities</p> <p>6 1290 Avenue of the Americas</p> <p>7 New York, NY 10104</p> <p>8</p> <p>9 BY: DAVID ELSBERG</p> <p>10 AMY NEMETZ</p> <p>11</p> <p>12 CIRILLO LAW OFFICE</p> <p>13 Attorney for Korea Exchange Bank</p> <p>14 246 E 33rd St</p> <p>15 New York, NY 10016</p> <p>16</p> <p>17 BY: RICHARD A. CIRILLO</p> <p>18</p> <p>19 BECKER, GLYNN, MUFFLY, CHASSIN, HOSINSKI LLP</p> <p>20 Attorney for The Sumitomo Trust and Banking Co., Ltd.</p> <p>21 299 Park Avenue</p> <p>22 New York, NY 10171</p> <p>23</p> <p>24 BY: MICHAEL ZEB LANDSMAN</p> <p>25</p>	<p>1 PROCEEDINGS</p> <p>2 THE COURT: Good morning, everyone. I have a</p> <p>3 letter requesting a discovery conference and this is in</p> <p>4 Adversary Proceeding 10-03635 and 10-03636. This is</p> <p>5 Fairfield Sentry v. Union Bancaire Privee and Fairfield</p> <p>6 Sentry v. Adler and Company Private Bank AG. State your</p> <p>7 name and affiliation.</p> <p>8 MR. BUTLER: Good morning, Your Honor. It's Jeff</p> <p>9 Butler from Clifford Chance, representing the Defendant --</p> <p>10 one of the Defendants in this case, Bank International a</p> <p>11 Luxembourg or BIL.</p> <p>12 THE COURT: Okay, hold on for me a minute. Okay.</p> <p>13 So, that's the union bank, is that what it is?</p> <p>14 MR. BUTLER: No, Your Honor. There are dozens of</p> <p>15 defendants in these two cases. We're just one of the many.</p> <p>16 THE COURT: Okay.</p> <p>17 MR. BUTLER: And it's called in the caption Dexia</p> <p>18 Banque International a Luxembourg, but the name was changed</p> <p>19 many years ago to BIL.</p> <p>20 THE COURT: Hold on just a second. Our recording</p> <p>21 has not picked up, so you may have to repeat some</p> <p>22 information.</p> <p>23 MR. BUTLER: Sure.</p> <p>24 THE COURT: But while they're doing that, tell me</p> <p>25 which case number you're on. 03635?</p>
Page 15	Page 17
<p>1</p> <p>2 KATTEN MUCHIN ROSENA MN LLP</p> <p>3 Attorneys for Access Defendants</p> <p>4 50 Rockefeller Plaza</p> <p>5 New York, NY 10020</p> <p>6</p> <p>7 BY: ANTHONY L. PACCIONE</p> <p>8</p> <p>9 SHER TREMONTE LLP</p> <p>10 Attorney for Theodore Dumbauld</p> <p>11 80 Broad Street</p> <p>12 Suite 1301</p> <p>13 New York, NY 10009</p> <p>14</p> <p>15 BY: ROBERT KNUTS</p> <p>16</p> <p>17 CLEARY GOTTlieb STEEN & HAMILTON LLP</p> <p>18 Attorney for Citigroup Global Markets Limited, Citibank</p> <p>19 NA, and Citicorp North America Inc.</p> <p>20 One Liberty Plaza</p> <p>21 New York, NY 10006</p> <p>22</p> <p>23 BY: CARMINE BOCCUZZI</p> <p>24</p> <p>25</p>	<p>1 MR. BUTLER: 3635 and 3636, Your Honor.</p> <p>2 THE COURT: Oh, so you're on both?</p> <p>3 MR. BUTLER: We are Defendants in both of the</p> <p>4 cases, correct.</p> <p>5 THE COURT: Okay. Hold on just a second until we</p> <p>6 find out about the sound. We do have backup sound, so it's</p> <p>7 not -- backup recordings, just so you know. Hold on, let me</p> <p>8 turn a light out. Just a second. Who would've thought two</p> <p>9 years ago we'd be light and sound people? Good grief.</p> <p>10 Okay, we'll just keep going with what we've got because we</p> <p>11 do have backup.</p> <p>12 So, this is -- and who for Fairfield?</p> <p>13 MR. ELSBERG: Your Honor, this is David Elsberg</p> <p>14 for the liquidators. And I'd like to ask my associate, Amy</p> <p>15 Nemetz, to introduce herself. Because with your permission,</p> <p>16 my associate Ms. Nemetz will be addressing the Court today.</p> <p>17 THE COURT: I am delighted to have always young</p> <p>18 associates, so welcome. State your name for the record,</p> <p>19 please.</p> <p>20 MS. NEMETZ: Amy Nemetz for the liquidators, Your</p> <p>21 Honor.</p> <p>22 THE COURT: Very good. Now, I have some</p> <p>23 questions, but let's go with what you all have to say to me</p> <p>24 first.</p> <p>25 MS. NEMETZ: Certainly, Your Honor.</p>

Page 18	Page 20
<p>1 MR. BUTLER: Sure, Your Honor.</p> <p>2 MS. NEMETZ: Oh. Which letters would you like the</p> <p>3 parties to address first? Because there are two.</p> <p>4 THE COURT: Okay. All right. You tell me.</p> <p>5 MS. NEMETZ: Jeff, would you mind if I go first?</p> <p>6 MR. BUTLER: Of course. Please.</p> <p>7 MS. NEMETZ: Thank you.</p> <p>8 THE COURT: His name is Mr. Butler on the record.</p> <p>9 MS. NEMETZ: Yes, Your Honor.</p> <p>10 THE COURT: Okay.</p> <p>11 MS. NEMETZ: Your Honor, the liquidators</p> <p>12 respectfully request that you compel counsel for Defendant</p> <p>13 BIL, which is Banque International a Luxembourg, to explain</p> <p>14 why relevant email communications were lost. We only</p> <p>15 recently learned that BIL has no electronically stored</p> <p>16 communications. The liquidators' document requests, which</p> <p>17 were served in September 2021, explicitly asked for these</p> <p>18 communications and we had two Rule 26(f) conferences with</p> <p>19 BIL's counsel, on October 1st and October 14, 2021. At no</p> <p>20 point did BIL's counsel tell us that it did not have</p> <p>21 custodial emails.</p> <p>22 This spring, BIL said that it had substantially</p> <p>23 completed its production of documents for jurisdictional</p> <p>24 discovery. That production was 74 pages of scanned hardcopy</p> <p>25 files. We asked, what about email discovery?</p>	<p>1 to disclose anything about document preservation.</p> <p>2 Even after the Court set this hearing, we tried to</p> <p>3 communicate with BIL's counsel and resolve this email issue.</p> <p>4 On August 24th, we asked BIL's counsel if he had been in</p> <p>5 touch with relevant custodians or anyone else at BIL who</p> <p>6 might know of any other place where relevant email</p> <p>7 communications were saved. He said he didn't know. He</p> <p>8 promised he would get back to us a week later. But as of</p> <p>9 two weeks after our discussion on September 6th, he said he</p> <p>10 still didn't know.</p> <p>11 Perhaps BIL's counsel is willing and able to</p> <p>12 provide this information today but until that happens, the</p> <p>13 liquidators are stuck. BIL's repeated stonewalling and</p> <p>14 refusal to engage with us on these issues is, in our view,</p> <p>15 inconsistent with its obligations under the federal rules of</p> <p>16 civil procedure and with the standards of conduct that Your</p> <p>17 Honor has explained are expected by parties appearing before</p> <p>18 this Court, and the treatment that we are getting is causing</p> <p>19 serious prejudice to the liquidators.</p> <p>20 BIL's failure to preserve electronic</p> <p>21 communications in the first place prejudices our ability to</p> <p>22 respond to its motion to dismiss. BIL has argued in that</p> <p>23 motion that the liquidators failed to allege specific</p> <p>24 contacts between it and the United States, but evidence of</p> <p>25 those contacts is precisely what we are after. The day-to-</p>
Page 19	Page 21
<p>1 After following up on our proposed email search a</p> <p>2 number of times, after six weeks, BIL's counsel on the</p> <p>3 deadline for substantially completing jurisdictional</p> <p>4 discovery told us for the first time that BIL does not have</p> <p>5 access to emails. We were surprised, Your Honor. Dozens of</p> <p>6 other defendants in these actions, including Luxembourg</p> <p>7 entities like BIL, managed to preserve, search for and</p> <p>8 product many electronically stored communications.</p> <p>9 We asked BIL's counsel that same day, June 30th,</p> <p>10 what happened to the emails and why weren't they preserved?</p> <p>11 BIL's counsel did not respond to us. As you can see in</p> <p>12 Exhibits A and D to the liquidators' office 11th letter, we</p> <p>13 asked BIL's counsel five separate times in writing on June</p> <p>14 30th, July 12th, July 14th, July 28th and August 5th to just</p> <p>15 tell us what happened to the emails. Your Honor can also</p> <p>16 see from those email chains that BIL's counsel either</p> <p>17 ignored or sidestepped our requests. They're simply</p> <p>18 refusing to tell us the facts.</p> <p>19 We also served a Rule 30(b)(6) notice so that we</p> <p>20 could ask a BIL witness the same questions about document</p> <p>21 preservation that BIL's counsel was refusing to answer.</p> <p>22 BIL's counsel didn't serve written objections or responses</p> <p>23 to the proposed deposition topics or meet and confer with us</p> <p>24 about scheduling or logistics. Instead, BIL is here today</p> <p>25 seeking a protective order that would excuse it from having</p>	<p>1 day emails, chats, meeting invitations, the paper trail that</p> <p>2 should have been left behind showing that BIL directed its</p> <p>3 activities to the United States.</p> <p>4 In the Picard litigation, Your Honor recently held</p> <p>5 that alleged email communications between a foreign Sitco</p> <p>6 customer Defendant, on the one hand, and BLMIS and FGG and</p> <p>7 the United States on the other was a relevant jurisdictional</p> <p>8 contact. That decision can be found at Adversary Proceeding</p> <p>9 Number 12-1693 Docket 21830 at Page 7.</p> <p>10 BIL's document production to date, however,</p> <p>11 includes zero communications or diary entries of this type,</p> <p>12 which the Court has held constitutes critical jurisdictional</p> <p>13 evidence. And that is despite the fact, in our view, that</p> <p>14 Your Honor has repeated ordered that the liquidators need</p> <p>15 discovery on these issues, an order which Judge Preska</p> <p>16 recently affirmed in full.</p> <p>17 Separately, BIL's refusal to disclose the</p> <p>18 circumstances under which it lost these emails prejudices</p> <p>19 the liquidators' ability to seek relief under Federal Rule</p> <p>20 of Civil Procedure 37, which addresses potential spoliation.</p> <p>21 Rule 37 is highly fact-specific. It asks whether the</p> <p>22 failure to preserve occurred when litigation was reasonably</p> <p>23 foreseeable and whether the party took reasonable step under</p> <p>24 the circumstances. The relief is also highly fact-specific.</p> <p>25 If evidence was destroyed intentionally, then the</p>

<p style="text-align: right;">Page 22</p> <p>1 liquidators might be entitled to an adverse inference. But 2 even if the evidence was destroyed accidentally, the 3 liquidators would be entitled to different curative relief 4 such as, for example, striking certain arguments from BIL's 5 motion to dismiss.</p> <p>6 Under similar circumstances, other courts have 7 ordered disclosure of these facts. A 2016 District of 8 Connection decision called Bagley v. Yale University at 318 9 F.R.D. 234 is very instructive. There the court identified 10 specific factual questions related to litigation holds and 11 document retention policies, and then compelled the 12 defendant to provide information about its document 13 preservation efforts to the plaintiff so that the plaintiff 14 could evaluate its position and whether relief was necessary 15 under Rule 37.</p> <p>16 That is precisely what the liquidators are seeking 17 Your Honor's assistance with today. The point is we need 18 the facts about BIL's preservation efforts in order to 19 navigate this issue. Only BIL has those facts, and BIL is 20 refusing to disclose that information to us and ultimately 21 to this Court.</p> <p>22 Moving on to BIL's responses to our positions, BIL 23 has raised three main points, and I'll address each one in 24 turn. First, BIL says that our spoliation concerns are 25 hypothetical. They are not hypothetical, Your Honor. BIL's</p>	<p style="text-align: right;">Page 24</p> <p>1 hardcopy transaction file. The 74 pages in that transaction 2 file contain 25 emails. They appear to be incomplete, 3 missing pages and attachments, and for obvious reasons, they 4 don't have metadata associated with them the way that 5 electronic discovery would. So, we can't see, for example, 6 whether anyone was blind-copied on the communications.</p> <p>7 More broadly, BIL cannot back up its assumption 8 that its employees printed every email that we've asked for 9 in discovery. BIL's production doesn't have communications 10 with BLMIS, which the liquidators sought in Request Number 11 14, or communications about marketing and investment in the 12 funds, which the liquidators sought in Request Number 6. 13 BIL's counsel has given us no reason to believe that these 14 25 printed emails were the only communications ever 15 exchanged that could be relevant to personal jurisdiction 16 issues.</p> <p>17 Third, BIL argues that the information we're 18 seeking about the preservation of evidence relevant to 19 personal jurisdiction is somehow outside the scope of 20 jurisdictional discovery. Taken literally, BIL's argument 21 means that it could destroy all evidence of contacts with 22 the United States, file a motion to dismiss for lack of 23 personal jurisdiction and never have to disclose what 24 happened to that evidence until the case somehow reaches the 25 merits. More simply, BIL is just wrong. In our view, Your</p>
<p style="text-align: right;">Page 23</p> <p>1 employees engaged in email communications during the 2 relevant timeframe, and BIL's August 12th letter to this 3 Court says, "It does not have" those emails. That is the 4 definition of potential spoliation.</p> <p>5 Moreover, the limited facts that BIL has offered 6 about its document preservation efforts strongly suggests 7 that it did not act reasonably under the circumstances. For 8 example, if you turn to Page 2 of Exhibit A that was 9 submitted with the liquidators' letter, Mr. Butler's July 10 12th email says that BIL started preserving evidence in late 11 2010. Late 2010 was almost two years after the whole world 12 learned that BLMIS was fraud. There is case law for the 13 proposition that revelation of a major fraud usually 14 triggers litigation and puts everyone potentially involved 15 on notice that they have to preserve relevant evidence, and 16 some of those cases are cited in Footnote 2 of our August 17 11th letter.</p> <p>18 In our view, Your Honor, disclosure of the largest 19 Ponzi scheme in history, which included Fairfield Sentry as 20 a feeder fund, and we know that BIL redeemed over \$50 21 million from Sentry alone, should have raised a very big 22 flag to BIL to keep everything related to BLMIS, including 23 emails.</p> <p>24 Second, BIL argues that it has already produced 25 all of the relevant emails that existed by giving us its</p>	<p style="text-align: right;">Page 25</p> <p>1 Honor has been very clear that the liquidators are entitled 2 to all discovery permissible under the Federal Rules of 3 Civil Procedure. Rule 37 clearly encompasses the 4 information that we are asking for about document 5 preservation efforts. If BIL requires yet another order 6 authorizing this discovery, however, we see no reason that 7 the Court cannot enter that today.</p> <p>8 My final point, Your Honor, is to respond to BIL's 9 letter seeking a protective order. Today, the liquidators 10 are not asking this Court to compel a Rule 30(b)(6) 11 deposition. In our view, if Your Honor orders BIL's counsel 12 to answer our questions about document preservation, and if 13 he does so completely, both sides can possibly avoid taking 14 a 30(b)(6) deposition at all and everyone can avoid 15 litigating whether or not a protective order should be in 16 place.</p> <p>17 For the record, the liquidators don't believe 18 BIL's request for a protective order has any merit. First, 19 BIL failed to meet and confer with us about the scope of the 20 deposition we requested. That violates the face of Rule 21 26(c) under which it is seeking a protective order, as well 22 as Local Rule 7007-1 and Your Honor's individual practices. 23 Second, BIL has made no attempt to show good cause in the 24 form of undue burden or expense from preparing a single 25 witness to testify on a limited number of topics. Finally,</p>

<p style="text-align: right;">Page 26</p> <p>1 the sole basis on which BIL seeks this protective order, its 2 scope argument, is nonsensical for the reasons I've already 3 explained. 4 In sum, the liquidators are seeking the Court's 5 intervention so that we all can determine what happened to 6 BIL's emails and resolve the resulting prejudice to the 7 liquidators. We just want the facts, Your Honor. We want 8 the facts about BIL's contacts with the United States so 9 that we can address personal jurisdiction, and we want the 10 facts about BIL's failure to preserve emails so that we can 11 address any potential spoliation issues and, if necessary, 12 seek additional relief from the Court. At this point, I 13 would be happy to answer any questions that the Court has. 14 THE COURT: I think you answered my questions 15 without my asking. Mr. Butler? 16 MR. BUTLER: Good morning, Your Honor. First, a 17 little bit of background. In this case there's only one 18 redemption that's at issue with respect to my client. It's 19 a \$3.9 million redemption that occurred in August of 2007. 20 It's not \$50 million that's at issue in this case for my 21 client. 22 THE COURT: I think she said 15, didn't she? 23 MS. NEMETZ: I said 50, Your Honor. 24 THE COURT: Oh, I'm sorry. I apologize. Okay. 25 MR. BUTLER: The practice at my client, which is a</p>	<p style="text-align: right;">Page 28</p> <p>1 United States as they relate to the specific subject matter 2 at issue in this case, which is only one redemption in 3 August of 2007. 4 So, our position is that, number one, this type of 5 deposition is just not appropriate for jurisdictional 6 discovery because it's broadly inquiring into events that 7 occurred either in 2008, a year after the redemption, or in 8 2010 when this action -- 9 THE COURT: Mr. Butler, she -- I think Ms. Nemetz 10 was very clear. Right now, she's not asking for that. 11 She's asking for the email trail in order to be able to, if 12 necessarily, have that deposition. Am I correct, Ms. 13 Nemetz, or did I hear that wrong too? 14 MS. NEMETZ: That's partially correct, Your Honor. 15 We either need the email trail or, if the email trail was 16 not preserved, we need to understand the circumstances that 17 led to that. 18 THE COURT: Well, that's -- that might be for 19 another day. 20 MS. NEMETZ: Yeah. 21 THE COURT: Mr. Butler, go ahead. 22 MR. BUTLER: Well, my response to your question, 23 Your Honor, would be that we believe we have produced the 24 email trail that exists. We're not aware of a -- you know - 25 -</p>
<p style="text-align: right;">Page 27</p> <p>1 bank in Luxembourg, was to keep all documents including 2 email and correspondence in transaction-specific files and 3 those files were clearly preserved for this redemption 4 because we've produced those files as well as the 5 transaction files for the preceding subscription, which was 6 \$3.3 million. And as Ms. Nemetz pointed out, there are 7 about 25 emails in those files, which is about, Your Honor, 8 what one would expect because this was an execution-only 9 transaction for BIL. They were merely getting instructions 10 from a client and executing those instructions. There was 11 not -- there's no reason to believe there would be a lot of 12 discussion about that, there's no reason to believe there 13 would be a lot of email traffic concerning that kind of 14 transaction. 15 So, as I said, we've produced the transaction 16 files, we've actually produced a total of about 500 pages of 17 documents for jurisdictional discovery. In this motion -- 18 and I thought this was the focus on this motion -- the 19 liquidators are seeking a broad Rule 30(b)(6) deposition 20 into document preservation efforts back at the time this 21 case was originally filed in late 2010. Now, that kind of 22 deposition is relatively normal in merits discovery. And if 23 this were merits discovery, I wouldn't be here before Your 24 Honor. But this is jurisdictional discovery that is really 25 supposed to be focused on contacts between my client and the</p>	<p style="text-align: right;">Page 29</p> <p>1 THE COURT: Well, you produced hardcopy. Where's 2 the -- where's the data on those emails? You don't get it - 3 - you don't get it in hardcopy, Mr. Butler. 4 MR. BUTLER: Electronic -- we don't have -- 5 THE COURT: And I know that. 6 MR. BUTLER: Yeah. I'm sorry, Your Honor, I 7 didn't -- 8 THE COURT: Well, then if you don't have it, then 9 you do need a 30(b)(6). You do need somebody testifying to 10 where it is and what's going on. If you can't produce it, 11 then you need somebody testifying to it. You need a 12 deposition on it. 13 MR. BUTLER: Your Honor, we -- it is definitely 14 true that we don't have electronic copies of all the emails. 15 They were only stored in the equivalent of hardcopy form. I 16 mean, I think I disclosed that information to the 17 liquidator. They're aware of it. The -- and so, I mean, we 18 can't produce what we don't have, is my point. 19 THE COURT: Well, you say you can't produce what 20 you don't have. Then you have to have someone testify to 21 that, and the lawyer can't do that, is what you're also 22 saying. 23 MR. BUTLER: I fully agree that the lawyer can't 24 do that, and I appreciate that comment, Your Honor. I just 25 -- I don't think that it's appropriate in jurisdictional</p>

Page 30	Page 32
<p>1 discovery, which is supposed to be narrow, to go off on a</p> <p>2 frolic and detour about a possible spoliation argument when</p> <p>3 there's not even a reason to believe that any significant</p> <p>4 document is missing because of the nature of this case and</p> <p>5 the nature of the transaction at issue. It's a very simple</p> <p>6 transaction, Your Honor. You wouldn't expect there to be a</p> <p>7 lot of email.</p> <p>8 THE COURT: Okay, but wait, Mr. Butler. But, Ms.</p> <p>9 Nemetz, you said that the emails were not complete. Can you</p> <p>10 give us an example?</p> <p>11 MS. NEMETZ: Yes, Your Honor. There are emails</p> <p>12 that BIL has produced in hardcopy where --</p> <p>13 THE COURT: Well, give us -- give us one example</p> <p>14 so we can all understand what you're talking about.</p> <p>15 MS. NEMETZ: Yes. Let me just bull up the Bates</p> <p>16 Number so that I can be as specific as possible.</p> <p>17 THE COURT: Okay.</p> <p>18 MS. NEMETZ: So, one example is the document</p> <p>19 produced at BIL005 through 007. That's a printed email</p> <p>20 chain that shows on its face that it attached scanned</p> <p>21 hardcopy files to it. It's not clear from the production</p> <p>22 whether those attachments were also produced.</p> <p>23 THE COURT: Okay. All right, Mr. Butler, that's -</p> <p>24 - I -- where are those attachments to those emails?</p> <p>25 MR. BUTLER: That's an answer I don't have, Your</p>	<p>1 not been raised with me before as a focus of the</p> <p>2 liquidators' concern. I would be happy to go back to my</p> <p>3 client and see if there are additional searches that could</p> <p>4 be performed to locate those specific attachments.</p> <p>5 THE COURT: Why didn't you do that before? Why</p> <p>6 are we -- when you -- when you had the Rule 26 obligation to</p> <p>7 have done that before?</p> <p>8 MR. BUTLER: Your Honor, in the meet and confer</p> <p>9 process where we were discussing the scope of documents that</p> <p>10 we would produce, we were I think very clear about the scope</p> <p>11 that we were willing to produce. I never had a response</p> <p>12 from Ms. Nemetz or anyone on the liquidators side saying, we</p> <p>13 really think we need these particular attachments. I don't</p> <p>14 even know the content of that email that Ms. Nemetz just</p> <p>15 cited to you --</p> <p>16 THE COURT: Of course you didn't, unless you had</p> <p>17 it to begin with. Okay, like I say, I'm sort of in a rock</p> <p>18 and a hard place. We have incomplete emails. Ms. Nemetz,</p> <p>19 Mr. Butler, meet in person.</p> <p>20 MR. BUTLER: Oh, happy to do that, Your Honor.</p> <p>21 MS. NEMETZ: Certainly, Your Honor.</p> <p>22 THE COURT: Meet in person, have your documents</p> <p>23 there. And I'm going to just kick the can down the road</p> <p>24 because right now, what I'm going to demand is you meet the</p> <p>25 requirements under Rule 26. And that means you get</p>
Page 31	Page 33
<p>1 Honor, and I don't think anyone -- that my client has an</p> <p>2 answer to that. We're talking about emails that were sent -</p> <p>3 -</p> <p>4 THE COURT: You're talking to someone -- you're</p> <p>5 talking to someone that's totally familiar with electronic</p> <p>6 data. So --</p> <p>7 MR. BUTLER: I understand, Your Honor.</p> <p>8 THE COURT: So, let's be clear about that. I'm</p> <p>9 sort of in a rock and a hard place, because when I listened</p> <p>10 to Ms. Nemetz it was like, make sure that you have that</p> <p>11 information too. And then you're saying that information</p> <p>12 doesn't exist. So, then that does instantly equal having a</p> <p>13 Rule 30(b)(6) deposition. So --</p> <p>14 MR. BUTLER: Your Honor, respectfully, I don't</p> <p>15 think there's any reason to believe that the kind of broad</p> <p>16 email record that Ms. Nemetz is speculating about -- there's</p> <p>17 no reason to believe it ever existed.</p> <p>18 THE COURT: If you've got an attachment to an</p> <p>19 email, and that attachment has not been produced, and you've</p> <p>20 produced the email without the attachment -- no, that's not</p> <p>21 right.</p> <p>22 MR. BUTLER: Your Honor, that -- it was produced</p> <p>23 in that form because that's how it was maintained in the</p> <p>24 ordinary course in the files of my client. Now, this</p> <p>25 specific email, Your Honor, was not raised with me -- has</p>	<p>1 metadata. And I know they've got it. You can't tell me a</p> <p>2 bank doesn't have it.</p> <p>3 That being said, I'll talk about the 36 -- the</p> <p>4 30(b)(6) possibility on October 19th. So, you all have got</p> <p>5 time to get -- take a look at everything, go over line by</p> <p>6 line whatever needs to be done, and then -- that's quick.</p> <p>7 So, I'll need to know exactly what I'm ruling on at that</p> <p>8 time but it will be the possibility of having the 30(b)(6).</p> <p>9 Now, Ms. Nemetz, we're talking about jurisdiction</p> <p>10 here and Mr. Butler's correct. This is narrow.</p> <p>11 MS. NEMETZ: Yes, Your Honor.</p> <p>12 THE COURT: So -- and I'll tell you what I'm</p> <p>13 looking for, Mr. Butler, is -- just as she said, those BCCs.</p> <p>14 Who did those blind copies go to? Are there any? Are you</p> <p>15 dealing with the United States on those blind copies? They</p> <p>16 need to really look at their material instead of just simply</p> <p>17 saying, we don't have it. That's insufficient for me at</p> <p>18 this stage.</p> <p>19 MS. NEMETZ: Yes, Your Honor. I appreciate your</p> <p>20 guidance so far. I just want to say that I'm happy to meet</p> <p>21 and confer with Mr. Butler in person as many times as is</p> <p>22 necessary to sort this out. But so far, whenever we've</p> <p>23 asked these questions -- for example, we asked him several</p> <p>24 weeks ago whether he'd spoken to any of the relevant</p> <p>25 custodians who sent these emails, and he said no. And we</p>

<p style="text-align: right;">Page 34</p> <p>1 still don't --</p> <p>2 THE COURT: Mr. Butler, I want the names of people</p> <p>3 you spoke to at the bank. I want the names of the people</p> <p>4 that you're dealing with to make sure this is done.</p> <p>5 For instance, if you called me and said, I need</p> <p>6 something from the Court, I am going to have to call my IT</p> <p>7 specialist. And I'm going to tell you, Mr. Butler, as my</p> <p>8 lawyer, that I have to talk to that IT specialist to know</p> <p>9 about it.</p> <p>10 MR. BUTLER: Mm hmm.</p> <p>11 THE COURT: I want you to have that chain in your</p> <p>12 head when you do it.</p> <p>13 MR. BUTLER: Certainly, Your Honor. I've already</p> <p>14 discussed it --</p> <p>15 THE COURT: I want a chain of custody from this</p> <p>16 and I don't -- okay, you talked to the CEO. No, the CEO</p> <p>17 doesn't have it. I know the CEO doesn't have it. Who is in</p> <p>18 charge of IT? Who is the head of IT? Who is the one</p> <p>19 responsible for retaining the documents? You get me a chain</p> <p>20 of custody because you yourself cannot testify to that</p> <p>21 information. And you know it and I know it.</p> <p>22 MR. BUTLER: Agreed, Your Honor. And I will say I</p> <p>23 haven't chased all that information down to date, although I</p> <p>24 had many conversations with my client on this subject -- but</p> <p>25 we can do more to get what you're requesting.</p>	<p style="text-align: right;">Page 36</p> <p>1 break. It'll only be about three minutes -- to turn the air</p> <p>2 conditioning down.</p> <p>3 MR. BUTLER: Thank you, Your Honor.</p> <p>4 MS. NEMETZ: Thank you, Your Honor.</p> <p>5 THE COURT: Thank you. Okay, we are now into the</p> <p>6 contested matter. Let me get this one off my plate. Very</p> <p>7 good. I believe the next one we have on the agenda is</p> <p>8 basically 10-04285, Trustee for the BLMIS v. UBS AG, UBS</p> <p>9 Luxembourg. Who else do we have on this one? Let me find</p> <p>10 out. It's all the UBS entities, correct? State your name</p> <p>11 and affiliation and make sure I'm correct.</p> <p>12 MR. KING: Good morning, Your Honor. It's</p> <p>13 Marshall King from Gibson Dunn & Crutcher on behalf of the</p> <p>14 four UBS Defendants. And I can give you those names if</p> <p>15 you'd like them.</p> <p>16 THE COURT: Just put it on the record, please.</p> <p>17 MR. KING: Sure. Sure. That's UBS AG, UBS EUROPE</p> <p>18 SE, UBS Fund Services (Luxembourg) SA and UBS Third Party</p> <p>19 Management Company SA.</p> <p>20 THE COURT: Excellent, thank you.</p> <p>21 MR. KING: And there are other Defendants as well,</p> <p>22 as Your Honor noted, and I'm sure counsel will put their</p> <p>23 appearance on as well.</p> <p>24 THE COURT: Excellent.</p> <p>25 MS. USITALO: Good morning, Your Honor. This is</p>
<p style="text-align: right;">Page 35</p> <p>1 THE COURT: Your client. Which client? Which</p> <p>2 client? Did you talk to the IT guy? Did you talk to --</p> <p>3 MR. BUTLER: Your Honor, I've spoken primarily to</p> <p>4 the Legal Department of BIL.</p> <p>5 THE COURT: Well, the Legal Department can't</p> <p>6 testify to it either, and you know that and I know that.</p> <p>7 Who's -- who's responsible for the chain of custody for the</p> <p>8 information in that bank?</p> <p>9 MR. BUTLER: I understand, Your Honor.</p> <p>10 THE COURT: Come back and see me on October 19th.</p> <p>11 You two talk, but you two talk in person. Where are you</p> <p>12 all?</p> <p>13 MR. BUTLER: I believe we're both in New York,</p> <p>14 Your Honor.</p> <p>15 THE COURT: Perfect.</p> <p>16 MS. NEMETZ: I believe our offices are across the</p> <p>17 street from each other, Your Honor.</p> <p>18 THE COURT: That's even better. Yeah. But have</p> <p>19 your list and remember we're concentrating on jurisdiction.</p> <p>20 But, Mr. Butler, it's not the legal staff. That legal staff</p> <p>21 better be talking to who's in charge of the documents and</p> <p>22 telling you so.</p> <p>23 MR. BUTLER: Yes, Your Honor, I understand, I</p> <p>24 understand.</p> <p>25 THE COURT: Excellent. I'm going to take a quick</p>	<p style="text-align: right;">Page 37</p> <p>1 Michelle Usitalo of Baker Hostetler for the Trustee, Irving</p> <p>2 Picard. I'm also here this morning with my colleagues, Mr.</p> <p>3 Warshavsky, as well as Ms. Fernandez and Ms. Stork.</p> <p>4 MR. PACCIONE: Your Honor, Anthony Paccione from</p> <p>5 Katten Muchin Rosenamn, on behalf of the Access Defendants,</p> <p>6 who I could read their names into the record if you'd like.</p> <p>7 THE COURT: Let's do. Let's just make the record</p> <p>8 clear.</p> <p>9 MR. PACCIONE: Sure. So, the Access Defendants</p> <p>10 that I'm referring to include Access International Advisory</p> <p>11 LLC, Access International Advisors LTD, Access Management</p> <p>12 Luxembourg SA, formerly known as Access International</p> <p>13 Advisors (Luxembourg) SA, Access Partners SA, Patrick</p> <p>14 Littaye, Claudine Magnon de la Villehuchet, whose name is in</p> <p>15 the caption and I'm happy to spell it, if necessary.</p> <p>16 THE COURT: No, I have it down. Thank you.</p> <p>17 MR. PACCIONE: And Groupement Financier Ltd.</p> <p>18 MR. KNUTS: Good morning, Your Honor. It's Robert</p> <p>19 Knuts for Defendant Theodore Dumbauld.</p> <p>20 THE COURT: And Mr. (indiscernible) has been</p> <p>21 adjourned, correct?</p> <p>22 MR. KING: That's correct, Your Honor.</p> <p>23 THE COURT: And then we have Defendants in their</p> <p>24 capacity as liquidators. Are they on the record today?</p> <p>25 MR. KING: I don't believe they've moved to</p>

<p style="text-align: right;">Page 38</p> <p>1 dismiss, Your Honor.</p> <p>2 THE COURT: I don't believe they have either.</p> <p>3 Exactly. I was just making sure. Thank you. Very good.</p> <p>4 It is your (indiscernible) business.</p> <p>5 MR. KING: Thank you, Your Honor. Again, it's</p> <p>6 Marshall King from Gibson Dunn on behalf of the UBS</p> <p>7 Defendants. This is a case in which the Trustee is seeking</p> <p>8 to recover subsequent transfers that were made initially</p> <p>9 through two foreign feeder funds. One called Luxalpha and</p> <p>10 one called Groupement Financier.</p> <p>11 I think as we discuss the issues of jurisdiction</p> <p>12 this morning, I think it's important to clarify that the UBS</p> <p>13 Defendants who are moving for dismissal on that basis are</p> <p>14 not investors in BLMIS and they are not investors in those</p> <p>15 foreign feeder funds. They are not alleged to have invested</p> <p>16 any of their own money with Madoff, whether directly or</p> <p>17 indirectly. Instead, we're talking about service providers</p> <p>18 to foreign funds. Those foreign funds contracted with the</p> <p>19 service providers under foreign law, under contracts</p> <p>20 governed by foreign law, to provide services to those funds</p> <p>21 in the foreign countries.</p> <p>22 The Trustee claims there's jurisdiction here on</p> <p>23 the theory that these service providers were providing the</p> <p>24 scaffolding for investment activities by others -- by the</p> <p>25 funds, not by the Defendants themselves. In essence, the</p>	<p style="text-align: right;">Page 40</p> <p>1 Defendants individually to assess whether they have</p> <p>2 purposely availed themselves of the privilege of doing</p> <p>3 business in the United States and whether the claims in this</p> <p>4 case arise out of or relate to those contacts.</p> <p>5 If Your Honor would permit me, I have a series of</p> <p>6 demonstratives that I hope will be helpful to Your Honor in</p> <p>7 sorting through a whole list of acronyms and other names</p> <p>8 here. And if I could share my screen, I'd appreciate</p> <p>9 sharing some demonstratives this morning.</p> <p>10 THE COURT: I think the host has to give you that</p> <p>11 power, and I'm not the host.</p> <p>12 MR. KING: Okay.</p> <p>13 THE COURT: Earlier -- earlier I said, you know,</p> <p>14 you'd have to talk to the IT staff.</p> <p>15 MR. KING: Sure.</p> <p>16 THE COURT: Well, you've got to talk to the IT</p> <p>17 staff. I believe it can be done.</p> <p>18 MR. KING: Okay. I did share a set of these with</p> <p>19 counsel for the Trustee shortly before this morning's</p> <p>20 hearing began, Your Honor.</p> <p>21 THE COURT: Let's -- let me get permission. I</p> <p>22 have to get permission to let you take the screen. So, give</p> <p>23 us two seconds.</p> <p>24 MS. USITALO: Your Honor?</p> <p>25 THE COURT: Yes?</p>
<p style="text-align: right;">Page 39</p> <p>1 Defendants, who are moving for personal jurisdiction</p> <p>2 dismissal, were doing business with entities, that is, the</p> <p>3 funds, that were transacting business in the United States</p> <p>4 but they were not themselves transacting business in the</p> <p>5 United States.</p> <p>6 There are four UBS Defendants. Our motion for</p> <p>7 personal jurisdiction -- for lack of personal jurisdiction</p> <p>8 is on behalf of just three of those entities. The one we</p> <p>9 have not moved on, I think it's important to just clarify,</p> <p>10 is UBS Europe SE. It was formerly known as UBS Luxembourg</p> <p>11 SA, and it's frequently referred to in the second amended</p> <p>12 complaint here as UBS SA. That entity is alleged to have</p> <p>13 acted as the custodian for Luxalpha and to have communicated</p> <p>14 regularly with the Madoff entity, with BLMIS, by mail, by</p> <p>15 fax, by telephone. It's alleged to have signed contract</p> <p>16 with BLMIS on behalf of Luxalpha, to have opened an account</p> <p>17 with BLMIS. It effectuated the subscriptions and received</p> <p>18 redemptions on behalf of Luxalpha from Madoff.</p> <p>19 As to the other three UBS Defendants, the ones who</p> <p>20 we are moving on behalf of, there are no such allegations</p> <p>21 about contacts with the United States. To the contrary,</p> <p>22 again, they are foreign entities which performed services</p> <p>23 abroad under contracts governed by foreign law and which</p> <p>24 received payment for their services abroad. It's important,</p> <p>25 I think, and the law requires that we focus on each of the</p>	<p style="text-align: right;">Page 41</p> <p>1 MS. USITALO: This is Michelle Usitalo of Baker</p> <p>2 Hostetler for the Trustee. I just wanted to emphasize the</p> <p>3 shortly before the Trustee -- the shortly before the hearing</p> <p>4 part of Mr. King's statement, and just note that the Trustee</p> <p>5 had not yet had the opportunity to review any of these</p> <p>6 demonstratives.</p> <p>7 THE COURT: Okay, we'll go -- he's now shared. It</p> <p>8 may be called kicking the can down the road again, but we'll</p> <p>9 see. Okay, you are now the cohost.</p> <p>10 MR. KING: Thank you, Your Honor. Let me see if I</p> <p>11 can make this work. I know all the associates on my side</p> <p>12 are panicked that I'm trying to do this myself.</p> <p>13 THE COURT: I will tell you that would be exactly</p> <p>14 what would happen here. The fact that they even let me</p> <p>15 punch a button is called panic.</p> <p>16 MR. KING: Okay, I think I have done it. Is Your</p> <p>17 Honor seeing --</p> <p>18 THE COURT: Perfectly. I see it.</p> <p>19 MR. KING: Excellent.</p> <p>20 THE COURT: Okay, you've got everybody here.</p> <p>21 USBAG et al., okay.</p> <p>22 MR. KING: Great. So, first, I wanted to speak</p> <p>23 about Defendant UBS AG. UBS AG is a Swiss company</p> <p>24 headquartered in Switzerland. It's alleged in the complaint</p> <p>25 to have offices and activities in the United States but it's</p>

<p style="text-align: right;">Page 42</p> <p>1 not alleged, nor could it be, to be subject to general 2 jurisdiction in the United States under the Daimler 3 decision, and there's no allegation that any of the United 4 States offices played any role in any way related to 5 Luxalpha or Groupement Financier. 6 It's alleged to have been a cosponsor and co- 7 promoter of Luxalpha but the complaint doesn't really 8 explain what those roles are, and it doesn't allege any 9 activity -- certainly not any U.S.-directed activity or 10 conduct by UBS AG. And, in fact, what the complaint alleges 11 -- and this is in Paragraph 162 -- is that the purpose of 12 having UBS AG as the cosponsor and co-promoter was to 13 satisfy certain Luxembourg and European regulatory 14 requirements. It had nothing to do with anything with the 15 United States. 16 The only conduct by UBS AG that is alleged in the 17 complaint is really in connection with what the complaint 18 says is another Madoff-related investment, that is no -- 19 meaning, not Luxalpha and Not Groupement Financier. When 20 they tried unsuccessfully -- certain employees in London 21 tried unsuccessfully to conduct diligence on Madoff and to 22 have a meeting with him. Apparently, the meeting never 23 happened and so there was no contact. Certainly no 24 jurisdictionally relevant contact that relates in any way to 25 the subsequent transfer claims at issue here.</p>	<p style="text-align: right;">Page 44</p> <p>1 come back to that in a bit when I discuss the failings of 2 the complaint on 12(b)(6) grounds. But it's relevant also 3 for jurisdictional purposes because the only way 4 jurisdiction, specific jurisdiction, could be deemed to 5 exist is if there is purposeful availment and U.S.-directed 6 conduct and that conduct relates to the claim at issue. And 7 we don't even know what the subsequent transfer is so it's 8 impossible to make that determination here as to UBS AG. 9 One other point about UBS AG that's addressed in 10 the briefs. The Trustee argues that UBS AG waived its right 11 to challenge personal jurisdiction because back in 2012, 12 when the Defendants first moved to dismiss the original 13 complaint, I believe, in this action, UBS AG did not include 14 a personal jurisdiction argument at that time. As I 15 mentioned, that occurred in 2012 at a time before the 16 Daimler decision, which was decided by the Supreme Court in 17 '14, and under governing Second Circuit law at that time, 18 UBS AG was subject to general jurisdiction in the United 19 States because it had -- even though it is a foreign 20 company, headquartered overseas, it had branches in the 21 United States. And under governing Second Circuit law at 22 the time, that was good enough for general jurisdiction. 23 As Your Honor knows, that has changed given the 24 Daimler decision which establishes that general jurisdiction 25 only exists -- or with rare exceptions, only exists in the</p>
<p style="text-align: right;">Page 43</p> <p>1 The last and only other potential argument the 2 Trustee has made about U.S.-directed conduct by UBS AG is 3 that UBS Luxembourg, which is that company I mentioned that 4 we are not moving to dismiss on behalf of -- at least not on 5 jurisdictional grounds -- maintained a bank account at a UBS 6 branch in the United States, and UBS Luxembourg used that 7 account to pass dollar-denominated transactions to and from 8 Madoff on behalf of Luxalpha. 9 It's not alleged that UBS AG initiated any of 10 those transfers. It's merely a bank at which someone else 11 used their account to make transfers in and out of that 12 account. I don't think that could be deemed purposeful 13 availment by the bank in all of the activities of their -- I 14 don't think there's any basis for arguing that a bank 15 purposely avails itself of all the transactional activities 16 that its customers engage in using bank accounts that are 17 maintained at that branch. 18 And, importantly, and I'll come back to this later 19 in my argument -- but the complaint, it's almost impossible 20 to make a determination as to UBS AG that any contact with 21 the United States -- any of these contacts relates to the 22 claim that is being brought here because the claim that is 23 being brought here is to recover subsequent transfers and 24 there is no allegation that UBS AG ever received a 25 subsequent transfer of money that originated at BLMIS. I'll</p>	<p style="text-align: right;">Page 45</p> <p>1 place of incorporation or the principal place of business. 2 So, today, there is no general jurisdiction of UBS AG. And 3 the Second Circuit has held in similar circumstances in the 4 Gucci America case, 768 F.3d, 122 -- and I'll just -- I'll 5 read the quote. It's directly on point. 6 "A defendant does not waive a personal 7 jurisdiction argument if the argument that the Court lacked 8 jurisdiction over the defendant would have been directly 9 contrary to controlling precedent in this circuit." And 10 that is certainly true of what occurred at the time of that 11 very first motion to dismiss in this case. UBS AG would not 12 have had an argument to dismiss for lack of jurisdiction so 13 it can't be deemed to have waived that -- where it now does 14 have that argument and has asserted it at its first 15 opportunity. 16 Next company to talk about is UBS Fund Services 17 Limited, referred to in the complaint frequently as UBS FSL, 18 but I recognize that some of the abbreviations get a bit 19 confusing so I'll try and use the full name, Your Honor. 20 UBS Fund Services is a Luxembourg company headquartered in 21 Luxembourg. It's alleged to have been the administrator for 22 Luxalpha and Groupement Financier. And by that, the Trustee 23 claims that the entity was performing day-to-day accounting 24 functions, keeping the shareholder register, communicating 25 with investors, preparing financial statements, calculating</p>

<p style="text-align: right;">Page 46</p> <p>1 the net asset value. You know, the day-to-day 2 administrative services, as is hinted at by the name 3 administrator, for those funds. But, importantly, all of 4 those activities occurred in Luxembourg. None are alleged 5 to have occurred anywhere in the United States. 6 In the Trustee's opposition papers he cites a 7 single fax and four alleged phone calls with the United 8 States over a four-year period. I will first say that the 9 phone call evidence that the Trustee has submitted -- and 10 that's at Exhibit 49 of the declaration that the Trustee 11 submitted with his opposition papers -- is probably not even 12 properly considered by Your Honor. This is a chart, I 13 guess, that is headlined Log of Apparent Phone Calls between 14 BLMIS and UBS SA or UBS FSL. It's purported to be 15 authenticated by a lawyer for the Trustee, for Mr. Picard. 16 I don't think it's appropriately considered on a motion to 17 dismiss. It's not alleged in the complaint and I don't 18 think it is appropriately considered on a motion to dismiss 19 as -- as evidence of anything, honestly. The lawyer who 20 purports to authenticate it authenticated it as a log of 21 apparent phone calls so they can't even assert that there 22 were. But even assuming that four phone calls were placed, 23 if you total up the minutes, it's 13 minutes over four years 24 is alleged. And there's nothing argued or presented that 25 would connect these phone calls to any of the subsequent</p>	<p style="text-align: right;">Page 48</p> <p>1 from the United States, no meetings in the United States, no 2 communications alleged with the United States. The Trustee, 3 in fact, alleges that UBS Third Party Management Company sat 4 passively and didn't do anything. So, on that basis, there 5 can't be purposeful availment of the privilege of conducting 6 business in the United States. 7 Briefly, the Trustee does try to make an agency 8 argument alleging that UBS Luxembourg -- again, that's the 9 other Defendant that we are not moving on personal 10 jurisdiction grounds -- arguing that the U.S. contacts of 11 that entity should be attributed to Third Party Management 12 Company, allegedly because of an advisory committee that was 13 supposedly formed by UBS Luxembourg. But nowhere in the 14 brief or in the complaint are there any allegations about 15 what that advisory committee did or whether it had any U.S.- 16 directed contacts, even if it could be attributable to Third 17 Party Management Company. 18 And, as we point out in our reply brief, the 19 theory that the Trustee has here seems to be backwards. 20 They are alleging that UBS Third Party Management Company 21 was the agent of UBS Luxembourg but yet they're trying to 22 attribute the conduct of the principal to the agent, and 23 that is not how agency jurisdiction works. All of the 24 Trustee's jurisdictional arguments about these three 25 entities boil down to what I said at the beginning, which is</p>
<p style="text-align: right;">Page 47</p> <p>1 transfers in this case, even if you considered these minimal 2 haphazard contact with the U.S.: One fax and four phone 3 calls over a four-year period. 4 There is no allegation in this case of any 5 transfers of funds to or from the United States by Fund 6 Services Limited, no meetings in the United States are 7 alleged, no -- the Trustee, in his brief, relies on a case 8 called Kromer for the assertion of jurisdiction over a 9 foreign administrator of a foreign investment fund. But in 10 Kromer, the fund at issue was created, managed and operated 11 in the United -- from the United States. There were regular 12 calls and countless mailings by the defendant at issue, by 13 the administrator, with investors and others in the United 14 States. And there is just nothing remotely like that 15 alleged about UBS Fund Services Limited. 16 Third, Your Honor -- sorry -- is Defendant UBS 17 Third Party Management Company, also a Luxembourg company, 18 also headquartered in Luxembourg. It is alleged to have 19 been the portfolio manager for Luxalpha from mid-2006 to 20 late 2008. But that's it on the allegations about UBS Third 21 Party Management Company. There's no allegations of any 22 conduct, zero conduct at all by anyone at Third Party 23 Management Company, much less any that were directed at the 24 U.S. There's, again, no transfers of funds by UBS Third 25 Party Management Company, either to the United States or</p>	<p style="text-align: right;">Page 49</p> <p>1 the notion that doing business with an entity that does 2 business in the United States is a basis for jurisdiction; 3 not -- not based on the jurisdictional conduct -- conduct 4 and contacts of the defendants themselves. And we think 5 that just stretches personal jurisdiction too far and that 6 the 12(b)(2) motion for lack of personal jurisdiction should 7 be granted. 8 Moving to the merits, Your Honor, I want to 9 address just a couple of items. I'm not -- we've moved on 10 546(e) grounds. Your Honor obviously has addressed that 11 topic in any number of decisions. But there are some unique 12 pieces here that have not been decided in any prior 13 decision, including one important one, and that is the 14 question of whether the Trustee has adequately pled that the 15 fund Defendants -- the fund Defendants being Luxalpha and 16 Groupement Financier -- had actual knowledge that BLMIS was 17 not trading securities. 18 The Trustee concedes that 546(e) would -- is 19 otherwise applicable, that all the prerequisites for 546(e) 20 are met, but argues that he can avoid the safe harbor 21 because of the so-called actual knowledge exception. So, 22 let's just focus for a moment on what that requires. The 23 actual knowledge standard is an extraordinarily high 24 standard to meet. It's a requirement of a subjective mental 25 state by the Defendant of "a high level of certainty and an</p>

<p style="text-align: right;">Page 50</p> <p>1 absence of any substantial doubt" that BLMIS was not trading 2 securities. That comes from Judge Bernstein's Merkin 3 decision in 2014. It is not enough that the Defendant had a 4 strong suspicion of fraud; it is not enough -- certainly not 5 enough that there were red flags that should have put 6 someone on notice of the fraud. It -- it requires that the 7 Defendant basically conclude a high level of certainty and 8 no doubt that BLMIS was not trading securities. 9 If you look at the complaint here, that -- all 10 that the Trustee really pleads is red flags or suspicions. 11 These -- you know, these next few slides are just a series 12 of excerpts from the complaint, from the second amended 13 complaint here, which illustrates the most that the Trustee 14 has. You'll see that -- you know, it says things like there 15 are voices in the industry warning, there are serious 16 concerns, there is a fraud risk. That's in Paragraph 156. 17 On multiple occasions -- if you look at Paragraph 144, for 18 instance -- people are alleged to have identified "red 19 flags." You'll see serious concerns. You'll see skepticism 20 up in Paragraph 247. Skepticism. You'll see warning signs, 21 and you'll see people say that there is an opportunity for 22 fraud. That's up there in Paragraph 234. You can see in 23 232 on the right hand side again alleging major red flags. 24 All of -- what's missing from the second amended 25 complaint is any factual assertion that any of the</p>	<p style="text-align: right;">Page 52</p> <p>1 argument, this Cutler investigation, he does not conclude 2 with a high level of certainty and a lack of doubt that 3 Madoff was not selling securities and was committing fraud. 4 I would say as you look at all of these and 5 consider them holistically, the allegations here don't even 6 approach the kind of allegations that the Trustee made in 7 the Merkin case that Judge Bernstein decided, where he held 8 that the Trustee had not -- had failed to plead actual 9 knowledge. He held they satisfied -- I believe he held they 10 satisfied the willful blindness test but that isn't enough. 11 He held they had failed to plead actual knowledge. The 12 complaint there included the same kind of allegations about 13 the impossibilities of Madoff's returns and concerns about 14 fraud, but the allegations there went even further. There 15 were people who were saying that there was some probability 16 that Madoff was a fraud and might be a Ponzi scheme. They 17 had quotes to that effect from the defendants there. And 18 even with those allegations, Judge Bernstein held that they 19 constituted, at most, a strong suspicion of fraud but not 20 the absence of doubt that's required for actual knowledge. 21 And so because the Trustee acknowledges the 22 applicability of Section 546(e) but has failed to plead 23 actual knowledge, that means that all of the transfers, 24 initial and subsequent, prior to two years before the filing 25 date are protected by the safe harbor and cannot be</p>
<p style="text-align: right;">Page 51</p> <p>1 Defendants subjectively believed with a high level of 2 certainty and no substantial doubt that Madoff was a Ponzi 3 scheme. And, to the contrary, what you see in the quotes -- 4 all we've relied on here are quotes from the Trustee and the 5 complaint -- you'll see things like in Paragraph 155 on the 6 bottom right hand corner, here's a UBS employee noting that 7 Madoff is controversial. In this excerpt he notes that 8 there are some oddities, there are things that are odd or 9 different from the norm. The employee is unable to identify 10 counterparties or having trouble identifying counterparties 11 for Madoff. But what does it say? It says everything is 12 probably fine. And that obviously is not a high -- high 13 level of certainty that Madoff was committing fraud. That's 14 noting some problems but having doubts. 15 Elsewhere in the complaint -- and I think this is 16 really the Trustee's sort of -- the best and most -- their 17 best argument that anyone noticed wrongdoing at Madoff 18 concerns an investigation done by a consultant hired by 19 Access, a fellow named Cutler, who did some diligence, did 20 some digging and concluded -- and you see it in Paragraph 21 235 -- the strategy doesn't make sense. And what does he 22 say? He says, it's possible that these are extremely sloppy 23 errors or serious omissions in tickets. That's the best 24 case. Arithmetic errors in the founder's strategy 25 description. So, even in the coup de grâce of the Trustee's</p>	<p style="text-align: right;">Page 53</p> <p>1 recovered. 2 Lastly, Your Honor -- last topic I want to mention 3 is insufficient allegations about -- about the existence of 4 subsequent transfers. The Trustee needs to plead -- this 5 is not a question that -- of simply difficulties the Trustee 6 will have in tracing the funds from Madoff through the 7 initial transferees to the subsequent transferees. It is 8 true he will have that problem when we come to it but there 9 are some glaring items that are simply impossibilities -- 10 not difficulties -- impossibilities on the face of the 11 complaint that require dismissal of some of the transfers. 12 So, first -- I mentioned this at the beginning -- 13 there is no allegation that UBS AG received any subsequent 14 transfer at all. In his opposition papers, the Trustee 15 concedes that he must allege the pathways of the transfers, 16 how they got from Madoff to the Defendant, and the who, when 17 and how much of the transfers are at issue. And the Trustee 18 tries to do this in Paragraph 3 -- Paragraphs 3 -- sorry -- 19 333 through 337 of the second amended complaint. 20 And if you look at those paragraphs, you will see 21 that the Trustee includes a paragraph about each of the 22 Defendants in this case, except UBS AG. He articulates the 23 amounts he's seeking to recover and the pathways, or 24 attempts to allege them, as to every Defendant, but there is 25 no allegation in those paragraphs or anywhere else in the</p>

<p style="text-align: right;">Page 54</p> <p>1 complaint about transfers to UBS AG. And I would submit, 2 Your Honor, that this is not simply an oversight on the 3 Trustee's part. I think it was a deliberate decision. But, 4 of course, there are consequences to deliberate decisions. 5 And for that, Your Honor, I would point you to the 6 following: Back in 2015, the Trustee moved for leave to 7 amend his complaint in this action, tendering a proposed 8 second amended complaint at that time. And that is -- I'm 9 showing Your Honor -- on the left hand side of this screen. 10 It's Docket Entry 210 in this case. And you'll see there, 11 the Trustee included a paragraph that said, based on the 12 Trustee's investigation to date, the UBS Defendants received 13 at least 97 million in subsequent transfers, including but 14 not limited to the following. And it lists A, B, C and D. 15 UBS SA received this amount, UBS FSL received this amount, 16 UBS Third Party Management Company received this amount. 17 And here are the rough dates of those receipts. And it 18 included a Paragraph D, UBS AG received at least 4.2 million 19 in recoverable subsequent transfers in the form of dividends 20 paid by UBS SA and UBS FSL, which were comprised in part of 21 fee amounts received from Luxalpha and Groupement Financier. 22 And so leaving aside for a moment the difficulties 23 and implausibility of ever proving tracing in that 24 circumstance, let's look at what the Trustee now alleges in 25 the operative complaint in this case. And the corresponding</p>	<p style="text-align: right;">Page 56</p> <p>1 August 2006 -- and this is pulled from Exhibit B of the 2 second amended complaint, Your Honor, where the Trustee 3 lists all of the transfers to and from Luxalpha and Groupe - 4 - well, Luxalpha in this instance -- purports to list all of 5 the initial transfers. And if you total up all of the 6 initial transfers, you get -- as of the end of 2006 -- 16.2 7 million in initial transfers. That means that it is 8 impossible that the 32 million that the Trustee seeks to 9 recover in subsequent transfers for that period could 10 possibly have been BLMIS customer property and initial 11 transfers. 12 Again, the Trustee, down the road in this case, if 13 it survives the deficiencies we've brought to your 14 attention, is going to have a bear of a time tying initial 15 transfers to subsequent transfers. But I'm not making that 16 argument here today. That, I grant you, can be for another 17 time. What we're focused on in this portion of the argument 18 anyway is impossibilities, mathematical, physical 19 impossibilities that 32 million in funds could have been 20 subsequent transfers when only 16 million were initial 21 transfers. 22 So, at least to the extent of that -- of the 23 difference there, some \$16 million, the complaint should be 24 dismissed, again, if not for all the other reasons we've set 25 forth in our papers. And I will, for all the other</p>
<p style="text-align: right;">Page 55</p> <p>1 paragraph is Paragraph 333, which I mentioned a few moments 2 ago, and that's on the right hand side here. And what we've 3 done is run a red line of the currently operative complaint 4 against the proposed amended complaint that the Trustee 5 tendered a few years ago -- and you'll see most notably 6 Paragraph D is no longer in there, and there is nothing else 7 alleged anywhere in the second amended complaint that 8 replaces it. 9 So, as such, the Trustee has failed to plead even 10 the most basic requirements for a claim to recover 11 subsequent transfers under Section 550 and, at a minimum, 12 the claim against UBS AG needs to be dismissed, if not for 13 personal jurisdiction, then for failure to state a claim. 14 And the last point, Your Honor, again, based 15 solely on the allegations of the Trustee's complaint, a 16 significant portion of the subsequent transfers he seeks to 17 recover could not have originated with BLMIS. So, you'll 18 note here that the Trustee alleges in 33(a) that UBS SA -- 19 again, that's the acronym that's used for UBS Europe SE, now 20 known as UBS Europe SE -- received at least 32.8 million in 21 fees for serving as the official custodian and official 22 manager of Luxalpha from February 2004 to August 2006. 23 Okay, fine. That's an effort to plead the 24 subsequent transfers as to UBS Europe. But if you total up 25 all of the initial transfers that existed on or before</p>	<p style="text-align: right;">Page 57</p> <p>1 arguments, rely on our papers, Your Honor, and I will -- I'm 2 happy to answer any questions or to allow the other 3 Defendants to address their issues. 4 THE COURT: Not yet. I'm -- I'm also considering 5 -- if you'll let go as cohost so we can get back? 6 MR. KING: Oh, sure. Well -- yeah. 7 THE COURT: Yeah. I don't know how. Maybe she 8 takes it away from you. I don't know what happens. 9 MR. KING: Maybe so. But I don't need to share 10 anymore, that's for sure. 11 THE COURT: Ms. Usitalo, I want you to address the 12 UBS argument and then we'll go to the other arguments. So - 13 - 14 MS. USITALO: Understood, Your Honor. Let me just 15 ask -- our plan here today had been for me to address the 16 issues on the 12(b)(6) points that are brought by all of the 17 Defendants. And then my colleague, Ms. Stork, was going to 18 address UBS's jurisdiction arguments. Would you -- 19 THE COURT: I want to address those jurisdiction 20 arguments right now because I, honestly, sort of lumped them 21 altogether. And one of my questions was going to be explain 22 the corporate structure of UBS and how it fits in with 23 Access as you understand it. And so, this argument sort of 24 bifurcates the argument. So, is Ms. Fernandez going to 25 address this?</p>

Page 58	Page 60
<p>1 MS. USITALO: My colleague, Ms. Stork, is going to 2 address the UBS jurisdictional issues. 3 THE COURT: Oh, I'm sorry. Ms. Stork. 4 MS. USITALO: So, I will turn it over to her. 5 THE COURT: Yes, Ms. Stork. 6 MS. STORK: Good morning, Your Honor. Okay, I 7 think I fixed the audio. My apologies there. Good morning, 8 Your Honor. I'm Victoria Stork, I'm an associate at Baker 9 Hostetler, counsel for the Trustee, Irving Picard. I'm here 10 today to argue in opposition to the UBS Defendant's motion 11 to dismiss on personal jurisdiction. As you are aware, the 12 Defendants have moved to dismiss, arguing a lack of personal 13 jurisdiction against the entities -- the three entities, UBS 14 AG, UBS Fund Services Luxembourg, which is often also 15 referred to as UBS FSL, and UBS Third Party Management, 16 often referred to in the papers as UBS TPM. And, together, 17 I often refer to them as the UBS personal jurisdiction 18 Defendants. 19 Your Honor, I think it's important to discuss, 20 particularly after Mr. King's argument, that the standard on 21 a motion to dismiss looks at the Trustee's well-pleaded, 22 non-conclusory allegations and exhibits that are taken as 23 true, and all inferences are to be made in the Trustee's 24 favor. And, Your Honor, as the Defendants have displayed in 25 Mr. King's demonstrate, they attempt to tease out each</p>	<p>1 and carrying out activities on behalf of Luxalpha and 2 Groupement. To make the argument that these entities were 3 not directing anything to New York I think is incorrect. 4 Each entity was an integral part of Luxalpha and Groupement. 5 Luxalpha and Groupement could not make investments into or 6 redemptions from BLMIS on its own. It needed the UBS 7 Defendants in order to do this. Without the UBS Defendants, 8 there would have been no investments, there would have been 9 no redemptions. Luxalpha and Groupement would not have been 10 able to operate. So, to say that they were just passively 11 carrying out functions internationally is incorrect. 12 Further, the argument that these entities were 13 international entities carrying out international contracts 14 with no contacts to New York is incorrect. It does not 15 matter that these entities were not based in the state of 16 New York; what matters is that they were directing 17 activities to the forum. The actions that they carried out 18 outside of the United States were directed into the forum, 19 and the impact and the injury to which the Trustee seeks to 20 recover funds occurred in New York. The entities were not 21 purely administrative and, Your Honor, it is completely 22 reasonable the Defendants should be held into court 23 regarding their conscious role of directing, developing and 24 sending investments into BLMIS. 25 I'm going to go through each entity and go through</p>
Page 59	Page 61
<p>1 individual contact that's alleged by the Trustee in attempts 2 to rebut them on a one-by-one basis. This is not 3 appropriate on a motion to dismiss standard. 4 The second amended complaint includes clear 5 allegations with demonstrate that the claims the Trustee 6 seeks to recover arise out of the UBS personal jurisdiction 7 Defendants' activities. And the Trustee has asserted in the 8 second amended complaint and highlighted in his papers how 9 each of these Defendants engaged in business that's 10 purposefully directed towards the United States and are 11 subject to the jurisdiction of this Court. And all of these 12 allegations are to be looked at in the totality of the 13 circumstances. So, Mr. King's attempt to rebut each one of 14 them is incorrect at this point in time. 15 The -- and as I will identify by going through 16 each of the three entities, the Trustee has in a totality 17 asserted that each of these Defendants does -- he does 18 establish a prima face case of personal jurisdiction for 19 each of them. 20 It's also important to identify that the UBS 21 Defendants -- UBS AG, UBS Fund Services Luxembourg and UBS 22 Third Party Management -- while we aren't aware of any 23 individual investments that they made directly into BLMIS or 24 Luxalpha, they were service providers for Luxalpha and 25 Groupement. And as service providers they were maintaining</p>	<p>1 the allegations that the Trustee has pled to determine -- to 2 show that we have shown in a totality of allegations that 3 there should be personal jurisdiction over each. I'll start 4 with UBS Fund Services Luxembourg. UBS Fund Services 5 Luxembourg acted as the administrator for both Luxalpha and 6 Groupement and was the management company and portfolio 7 manager for Luxalpha. Additionally, UBS Fund Services 8 Luxembourg did serve as the registrar and transfer agent, as 9 we see in some of the Luxalpha documents. 10 They were responsible for keeping Luxalpha and 11 Groupement's accounting -- account records, reports, 12 financial statements and coordination with auditors, but 13 were also responsible for doing things like keeping register 14 of the shareholders, handling all subscriptions and 15 redemptions -- those subscriptions and redemptions which 16 were going to New York at BLMIS or coming from BLMIS in New 17 York. 18 UBS Fund Services Luxembourg did work with Access 19 on Luxalpha and Groupement's management supervision and 20 administration. And actually in Luxalpha's answer, which it 21 has recently filed and this Court can take judicial notice, 22 Luxalpha admitted that -- and I'll quote; it's from 23 Paragraph 68 of Luxalpha's answer -- that "UBS Fund Services 24 Luxembourg worked closely with several of the Access 25 Defendants in the management, supervision and administration</p>

<p style="text-align: right;">Page 62</p> <p>1 of Luxalpha." Further, they admitted that UBS Fund Services 2 Luxembourg was responsible for calculating Luxalpha's net 3 asset value based solely on the data that was provided by 4 BLMIS with no independent verification. This is data that 5 was coming directly from BLMIS that UBS Fund Services 6 Luxembourg was retrieving in order to carry out the 7 functions that they were required to carry out as the 8 administrator of Luxalpha. 9 UBS Fund Services Luxembourg employees attended 10 administrative meetings with Access to discover Luxalpha and 11 Groupement. They participated in calls and email exchanges 12 with Access employees. Mr. King did discuss the fax 13 communication and the telephone calls between BLMIS and UBS 14 Fund Services Luxembourg. The documents which the Trustee 15 asserted -- which the Trustee can properly assert on the 16 motion to dismiss based on personal jurisdiction are from 17 the BLMIS records. And as the Trustee has identified in his 18 papers, the Trustee does not have all of the records of 19 Luxalpha, or Groupement, or the UBS Defendants. So, these 20 are contacts that we are aware of that occurred and together 21 come to create the totality of the circumstances. And here 22 what we're seeing is that there numerous contacts where 23 someone at UBS Fund Services Luxembourg was reaching out to 24 someone at BLMIS directly, which is in New York. So, they 25 were directing contact directly into New York.</p>	<p style="text-align: right;">Page 64</p> <p>1 touch on this later when I talk about UBS AG -- there 2 weren't numerous UBS AG employees that were members of the 3 board of UBS Third Party Management. Third Party Management 4 was officially responsible for all of Luxalpha's investment 5 management decisions and, as we are aware, Luxalpha only 6 invested in BLMIS. So, all of those investment decisions 7 were into and out of New York in BLMIS. They received 8 management and performance fees tied to Luxalpha's 9 performance. And, like I just said, that performance was 10 all directed to and from New York at BLMIS. 11 From the inception of Luxalpha until fall of 2006, 12 UBS Luxembourg SA, which, as Mr. King stated, is now known 13 as UBS Europe SE, was Luxalpha's manager. And a management 14 company services agreement dated on September 22, 2006 15 transferred that responsibility of Luxalpha's manager to UBS 16 Third Party Management. On the same day, there was an 17 agreement for a constitution of an advisory committee, which 18 was signed and dated between UBS Third Party Management and 19 UBS Luxembourg SA. 20 Despite the switch in managers, UBS Luxembourg SA 21 was still participating alongside UBS Third Party Management 22 through this advisory agreement. Essentially, management by 23 UBS Third Party Management was directed and assisted by UBS 24 Luxembourg SA. All management decisions were directed -- 25 were dictated by this advisory committee, and the advisory</p>
<p style="text-align: right;">Page 63</p> <p>1 Mr. King also discusses the fact that there's no 2 transfers or funds to or from the United States alleged. 3 The Trustee alleges that the UBS Defendants received 4 transfers from Luxalpha or Groupement in return for fees for 5 the services that they were providing. So, there were 6 transfers that came through to the UBS Defendants that were 7 originated from BLMIS. 8 All of the UBS Fund Services Luxembourg's actions 9 with respect to Luxalpha and Groupement show that the UBS 10 Fund Services Luxembourg's communicating, carrying out day- 11 to-day tasks in operation of the funds, and carrying out 12 tasks in furtherance of funneling investments through 13 Luxalpha and Groupement make a prima face case that UBS Fund 14 Services Luxembourg purposely availed itself of the New York 15 forum, and the totality of its contacts permit this Court to 16 exercise personal jurisdiction over it. Further, it's 17 completely reasonable that Fund Services Luxembourg would be 18 (indiscernible) to the Court when they were directing things 19 in and out of New York. 20 Secondly, UBS Third Party Management. Third Party 21 Management served as Luxalpha's management company from fall 22 of 2006 through to the exposure of the fraud in November of 23 2008. They deliberately engaged in investment activity with 24 BLMIS in New York and they earned substantial fees in 25 connection with those activities. Additionally -- and I can</p>	<p style="text-align: right;">Page 65</p> <p>1 committee was formed and staffed with UBS Luxembourg SA 2 directors and Access principals. 3 Again, the Trustee's not privy to most of the 4 books, and records, and documents of the Defendants at this 5 time. However, the Trustee is aware that there was an 6 agreement between UBS Third Party Management and UBS 7 Luxembourg SA, which created the advisory committee; that 8 the advisory committee was tasked with making 9 recommendations in relation to the management and investment 10 policy and strategy of the Luxalpha fund, and the advisory 11 committee was staffed fully with UBS Luxembourg SA 12 employees. 13 The fact that Third Party Management was to carry 14 out its management duties under the advisement of an 15 advisory committee signals that Third Party Management and 16 UBS Luxembourg SA were working in concert. And the Trustee 17 argues that the jurisdictional contacts where UBS Luxembourg 18 SA is actively engaging with BLMIS and New York should be 19 considered for UBS Third Party Management as well. 20 Finally, I will discuss the contacts of UBS AG. 21 UBS AG served as Luxalpha's sponsor and promoter, and that 22 is a more integral role than Mr. King was letting on. This 23 isn't a case where UBS AG was simply behind the scenes 24 shuffling papers, signing documents. They actually stepped 25 in as a successor to BMP after BMP closed the Auriga Fund</p>

<p style="text-align: right;">Page 66</p> <p>1 and did not want to be participating in the Luxalpha Fund.</p> <p>2 UBS was aware from day one that the role of</p> <p>3 sponsor and promoter for Luxalpha included things like</p> <p>4 seeking out and funneling investments into BLMIS, and that</p> <p>5 as it use its funds, the requirement of a sponsor and</p> <p>6 promoter plays an important role of the creation, structure,</p> <p>7 launch and management in the administration of the fund,</p> <p>8 which the Trustee does allege in his second amended</p> <p>9 complaint, Paragraph 166.</p> <p>10 Under the applicable law and uses regulations, the</p> <p>11 role of sponsor includes playing a role in the complete</p> <p>12 oversight of the fund. And, in practice, it's typically the</p> <p>13 main shareholder of the management company or group entity</p> <p>14 to which the main shareholder belongs. And as I've</p> <p>15 previously stated, UBS AG is -- did have multiple employees</p> <p>16 that were on the board of directors of UBS Third Party</p> <p>17 Management, which was the management company of Luxalpha.</p> <p>18 Additionally, UBS AG was responsible for viewing</p> <p>19 and approving options counterparties, as the Trustee alleged</p> <p>20 in Paragraph 265 of his second amended complaint, and every</p> <p>21 redemption from BLMIS came to UBS AG's Stanford branch to an</p> <p>22 account for UBS Luxembourg SA. As I previously -- all of</p> <p>23 these things together on a totality of the circumstances</p> <p>24 show that UBS AG was active and purposely directing</p> <p>25 activities towards New York.</p>	<p style="text-align: right;">Page 68</p> <p>1 said. Just let me think a second.</p> <p>2 MS. STORK: Absolutely.</p> <p>3 THE COURT: I'm trying to figure out what you're</p> <p>4 saying about what monies did they get. Was this solely fees</p> <p>5 for investment advising and custodial services? Is that</p> <p>6 what you -- or was it more?</p> <p>7 MS. STORK: My apologies, Your Honor. Just give</p> <p>8 me one quick second to think about this and get a good</p> <p>9 answer for you.</p> <p>10 THE COURT: Sure.</p> <p>11 MS. STORK: My colleague, Ms. Usitalo will talk</p> <p>12 more about that tracing, but what I can tell you is that the</p> <p>13 allegations that we have are related to the information that</p> <p>14 the Trustee has from contracts and documents where we're</p> <p>15 seeing that there are monies that were being transferred for</p> <p>16 the services that each of these entities were providing.</p> <p>17 THE COURT: And so that's what you're saying</p> <p>18 jurisdiction is based on?</p> <p>19 MS. STORK: That's what our claims are based on,</p> <p>20 yes.</p> <p>21 THE COURT: The Court will take a ten-minute</p> <p>22 break.</p> <p>23 MS. STORK: Thank you, Your Honor.</p> <p>24 THE COURT: Or 15. Let's make it a 15-minute</p> <p>25 break. Chambers.</p>
<p style="text-align: right;">Page 67</p> <p>1 Finally, one of the arguments that Mr. King and</p> <p>2 the UBS Defendants make is that there's limitless</p> <p>3 jurisdiction if we're hailing the UBS entities into court.</p> <p>4 This is not what the Trustee is seeking. We're not seeking</p> <p>5 to cast a limitless dragnet against all entities. We're not</p> <p>6 seeking to bring in the custodians or the individuals who</p> <p>7 are maintaining copiers at the UBS offices abroad. The</p> <p>8 Trustee is simply seeking to hold accountable the entities</p> <p>9 that were vital to the harm that occurred here in New York.</p> <p>10 They're not random. They were essentially parties who</p> <p>11 played vital roles. Each of these entities were key players</p> <p>12 who set up and serviced the defendant funds, Luxembourg and</p> <p>13 Groupement, and they are entities who we have claims against</p> <p>14 for taking fees from the defendant funds in exchange for the</p> <p>15 work that they carried out, which were directed straight</p> <p>16 into New York with the intention of investing with BLMIS.</p> <p>17 In conclusion, Your Honor, we submit that the</p> <p>18 Court does have personal jurisdiction over the UBS</p> <p>19 Defendants, UBS AG, UBS Fund Services Luxembourg and UBS</p> <p>20 Third Party Management, as alleged in the Trustee's second</p> <p>21 amended complaint and highlighted in his opposition with the</p> <p>22 company (indiscernible). And at the very least, Your Honor,</p> <p>23 the Trustee should be entitled to jurisdictional discovery.</p> <p>24 Any questions I can answer for you, Your Honor?</p> <p>25 THE COURT: Give me a moment to absorb what you</p>	<p style="text-align: right;">Page 69</p> <p>1 (Recess)</p> <p>2 MR. KING: Your Honor, you're on mute if you're</p> <p>3 talking to us.</p> <p>4 THE COURT: Okay. All right. I think I need the</p> <p>5 -- I need a question answered, Ms. Stork, and that is when,</p> <p>6 what, where of the money to UBS?</p> <p>7 MS. STORK: Yes, Your Honor, one second. Let me</p> <p>8 just pull that information up right now.</p> <p>9 THE COURT: Am I off mute?</p> <p>10 MS. STORK: Yes, Your Honor.</p> <p>11 THE COURT: And that's UBS AG that I'm asking...</p> <p>12 MS. USITALO: Your Honor --</p> <p>13 THE COURT: Yes, ma'am, you're good. I hear you.</p> <p>14 State your name, though, for the record.</p> <p>15 MS. USITALO: Yes. Michelle Usitalo, Baker</p> <p>16 Hostetler for the Trustee.</p> <p>17 THE COURT: Okay, okay.</p> <p>18 MS. USITALO: And, Your Honor's question -- you</p> <p>19 were clarifying that it goes to UBS AG?</p> <p>20 THE COURT: Right. I'm not clarifying. I need</p> <p>21 you to clarify.</p> <p>22 MS. USITALO: I'm sorry. No, I was clarifying the</p> <p>23 question. I'm sorry.</p> <p>24 THE COURT: Okay.</p> <p>25 MS. USITALO: Your Honor -- and I can clarify it</p>

<p style="text-align: right;">Page 70</p> <p>1 for you. Because the Trustee does allege that UBS AG 2 received subsequent transfers as a service provider, and 3 that's in Paragraph 332 of the complaint where it says that 4 -- I am pulling it up -- 5 THE COURT: Well, I have it right here, but okay. 6 MS. USITALO: Based on the Trustee's investigation 7 to date, the feeder fund Defendants subsequently transferred 8 some of the initial transfers to the Access Defendants and 9 the UBS Defendants, and UBS AG is included in that 10 definition, as payment for their alleged service of the 11 feeder funds. And, as Ms. Stork noted previously, Luxalpha 12 has filed an answer in this complaint and Luxalpha in that 13 answer has -- has admitted that -- that the UBS Defendants 14 received payment of fees for their alleged services, and 15 that includes UBS AG. 16 The Trustee has also alleged, as Ms. Stork noted, 17 that UBS AG is a sponsor and promoter and as a result, 18 received fees. And the Trustee has also alleged that -- 19 that UBS AG is the parent company here. And the importance 20 of that allegation and that relationship is that UBS AG 21 would've received dividends from UBS SA. In the amount -- 22 we don't have that yet because we don't have the books and 23 records of Luxalpha, of Groupement, or of the UBS entities. 24 So, that is -- that is where the Trustee has made the 25 allegations of UBS AG in his complaint, and we believe that</p>	<p style="text-align: right;">Page 72</p> <p>1 companies, for foreign companies that themselves invested in 2 the United States. Luxalpha and Groupement Financier 3 invested with Madoff, at least according to the allegations. 4 All that is alleged, whether you take it 5 individually or collectively and holistically as Ms. Stork 6 wants you to, is that these UBS defendants provided services 7 abroad to those entities that were doing business in the 8 U.S. And I think the question Your Honor will have to 9 answer is is that good enough to assert personal 10 jurisdiction over those defendants. And I submit that the 11 law doesn't permit that. Thank you. 12 THE COURT: Very good. Okay. Now where are we? 13 We had UBS. And now Access. 14 MR. PACCIONE: Yes, Your Honor. Anthony Paccione 15 on behalf of the Access defendants. 16 THE COURT: The Access defendants? 17 MR. PACCIONE: So I identified those defendants 18 earlier on. 19 THE COURT: You did. Then let's just say you 20 referred to them when you put your name on the record. And 21 then we can go from there. 22 MR. PACCIONE: That's correct, Your Honor. And so 23 I think for today's purposes, with the Court's permission, 24 we did move on behalf of the Access defendants on a number 25 of grounds. But I think for today, I just want to address</p>
<p style="text-align: right;">Page 71</p> <p>1 these are allegations that are sufficient to put UBS AG on 2 notice of the Trustee's claim. 3 THE COURT: Very good. Very good. Anything else, 4 Ms. Stork or Ms. Usitalo? 5 MS. USITALO: Usitalo. 6 THE COURT: Usitalo, Usitalo. Anything else you 7 all wish to add at this point? 8 MS. STORK: No, Your Honor. 9 THE COURT: Mr. King, anything you want to rebut 10 on the UBS point? 11 MR. KING: Yeah. Just two quick things, Your 12 Honor. 13 Number one, just to address the paragraph that Ms. 14 Usitalo just pointed to, I mean, that's a classic conclusory 15 allegation without any factual detail. It does not say that 16 UBS AG in particular got any of the funds. Whereas you look 17 at Paragraphs 333 to 337, it goes into great attempts to go 18 into great detail about specific fees paid, dates and 19 amounts paid to the other defendants. It's just absent. 20 It's just a conclusory lumping in allegation that fails even 21 to even relate, Your Honor. 22 The second point just to mention on the 23 jurisdictional issues is I don't think Ms. Stork said 24 anything that I didn't say to Your Honor earlier, namely 25 these are three foreign entities that performed services for</p>	<p style="text-align: right;">Page 73</p> <p>1 the jurisdictional arguments given the confusion and some of 2 the questions that have arisen already. And those 3 jurisdictional arguments are only on a subset of the Access 4 defendants. And those include -- and we referred to those 5 as the JMDs, the jurisdictional moving defendants in our 6 brief. But the three entities that I want to speak about 7 and try and clarify in terms of the rules that they serve 8 include Access International Advisors LTD, Access Management 9 Luxembourg SA, formerly known as Access International 10 Advisors Luxembourg SA, and Access Partners SA. And what 11 I'd like to -- 12 THE COURT: Let me interrupt you. 13 MR. PACCIONE: Sure. 14 THE COURT: Because I will tell you I have 15 questions. And let me give you those questions. And you 16 don't have to answer them, but I want you to keep them in 17 mind. Okay? 18 How did the feeder funds work? Was the money paid 19 to UBS or directly to Luxalpha? The feeder funds are the 20 initial transferees. If so, how did they get their 21 knowledge, through Mr. Littaye or Mr. Villehuchet only, or 22 additional defendants? And you need to take me through 23 those as you give your presentation. Okay? 24 MR. PACCIONE: Okay, Your Honor. Let me start 25 with that very broadly. The feeder funds, the two separate</p>

Page 74	Page 76
<p>1 feeder funds which include Groupement and Luxalpha are</p> <p>2 foreign feeder funds. They were set up, one, Luxalpha as a</p> <p>3 SICAV, S-i-c-a-v, and Groupement as an entity. Both, again,</p> <p>4 offshore and foreign.</p> <p>5 They're investors. The people giving the money</p> <p>6 over to those funds are all foreign investors. And I'm not</p> <p>7 sure that was clear from any of the prior presentations. So</p> <p>8 we have foreign investors making investments into foreign</p> <p>9 funds.</p> <p>10 At that point, Your Honor, what happens and how</p> <p>11 are those funds administered? The UBS entities have certain</p> <p>12 roles. The access entities that I am about to speak about</p> <p>13 have certain roles. These entities are all separate,</p> <p>14 distinct corporate entities serving different functions.</p> <p>15 Some are administrative, some are advisory, some are</p> <p>16 management related, but they all serve different functions.</p> <p>17 And the point I want to echo is --</p> <p>18 THE COURT: Well, let me ask you one other</p> <p>19 question then. Is there any evidence that they had any</p> <p>20 money that was not BLMIS money?</p> <p>21 MR. PACCIONE: Who is the they, Your Honor, in</p> <p>22 that question?</p> <p>23 THE COURT: All your feeder funds that you're</p> <p>24 dealing with -- that you're representing.</p> <p>25 MR. PACCIONE: So as to the feeder funds, they</p>	<p>1 three Access entities that identify -- and I'll go through</p> <p>2 each one of them specifically as to what they did. But like</p> <p>3 the UBS entities, Your Honor, these were service providers,</p> <p>4 providing services outside of the United States to funds</p> <p>5 that were located outside of the United States to investors</p> <p>6 that were located outside of the United States. They did</p> <p>7 not -- they were not investors. These were service</p> <p>8 providers collecting fees, which fees were paid outside of</p> <p>9 the United States. And so these were completely foreign</p> <p>10 entities providing foreign services and receiving fees.</p> <p>11 Most of the fees if you look at the chart actually weren't</p> <p>12 even directly from the feeder funds to the Access entities,</p> <p>13 but they made their way through to UBS entities, who were</p> <p>14 all foreign, and then turned over to Access to some degree.</p> <p>15 So these were, again, purely foreign funds. Not</p> <p>16 investors, who were simply collecting their fees for the</p> <p>17 services that they rendered. So the question then becomes</p> <p>18 what did each one of these three Access entities do and</p> <p>19 where were they located?</p> <p>20 I'm going to start with Access International</p> <p>21 Advisors LTD. We'll call them Access LTD. That's a Bahamas</p> <p>22 limited company with registered offices in the Bahamas.</p> <p>23 They had their own bank accounts in the Bahamas, their own</p> <p>24 separate board of directors acting outside of -- acting in</p> <p>25 the Bahamas by resolution. They had their own separate</p>
Page 75	Page 77
<p>1 were to the best of my knowledge a hundred percent invested</p> <p>2 in Madoff. As to those two feeder funds, as to Groupement</p> <p>3 and Luxalpha. So I don't think there is a dispute about</p> <p>4 that.</p> <p>5 I do want to say this. That the business of</p> <p>6 Access and all of the Access entities was not solely with</p> <p>7 regard to those two feeder funds. The trustee admits in</p> <p>8 their allegations and the complaint that Access' business</p> <p>9 wasn't just Madoff. Access' business included 10 to 15</p> <p>10 other funds as set forth in Mr. Littaye's affidavit that</p> <p>11 were not Access related. And so they had other business</p> <p>12 dealings. Those other business dealings with those other</p> <p>13 funds basically operate out of the New York office. And a</p> <p>14 separate entity called Access International Advisors LLC,</p> <p>15 they were a Delaware LLC operating in New York dealing with</p> <p>16 those other 10 to 15 other funds.</p> <p>17 THE COURT: Were those funds segregated? Were the</p> <p>18 funds from those entities segregated from BLMIS funds?</p> <p>19 MR. PACCIONE: Yes. They are completely separate</p> <p>20 funds with separate investors --</p> <p>21 THE COURT: So they're easy to show then, or</p> <p>22 relatively easy to show. Okay.</p> <p>23 MR. PACCIONE: Yes, Your Honor. Okay. So let me</p> <p>24 get to the point I think that's at the heart of the motion</p> <p>25 on jurisdictional grounds, and that is dealing with the</p>	<p>1 ownership. This is a purely foreign firm. And this is what</p> <p>2 the trustee alleges it did.</p> <p>3 ATD -- according to its own -- I'm reading from</p> <p>4 Page 22 of the Trustee's brief, Your Honor. It said AIA</p> <p>5 LTD was required to keep the net assets of the funds under</p> <p>6 surveillance and constant review and carry out reviews and</p> <p>7 controls of the portfolio and served as Luxalpha's official</p> <p>8 consultant and exclusive introducing agent for potential</p> <p>9 investors in Luxalpha. And they quote to Paragraph 89 of</p> <p>10 the second amended complaint.</p> <p>11 Those service, Your Honor, dealing for example</p> <p>12 with foreign investors are all rendered outside of the</p> <p>13 United States. They do -- as to communications with the --</p> <p>14 as for all of these entities, the three entities that I'm</p> <p>15 about to talk about, of the 4.5 million documents that</p> <p>16 Access produced to the trustee, they found a single fax from</p> <p>17 AIA LTD that was sent to BLMIS in connection with requesting</p> <p>18 that reports be sent to the New York office for Madoff. A</p> <p>19 single fax. None of the phone calls or the purported phone</p> <p>20 calls that are listed. A single fax out of 4.5 million</p> <p>21 documents that Access produced. They have all of Madoff's</p> <p>22 records, and they have records that UBS produced. From</p> <p>23 those productions, this is the connection that they're</p> <p>24 trying to hold this Bahamian company into the United States</p> <p>25 on the basis of a single fax in connection with services,</p>

<p style="text-align: right;">Page 78</p> <p>1 again, all rendered offshore.</p> <p>2 So, Your Honor, turning then to the second entity</p> <p>3 that I want to talk about. These are Luxembourg entities.</p> <p>4 And that's Access Management Luxembourg SA. It was known as</p> <p>5 Access International Advisors Luxembourg SA. For today's</p> <p>6 purposes I think we can call them AIA Lux. And what AIA Lux</p> <p>7 is alleged to have done is they had -- they served as</p> <p>8 investment advisor under advisory agreements, the advisory</p> <p>9 agreements governed under foreign law, signed and executed</p> <p>10 outside of the United States. And they were to verify</p> <p>11 investment policy was effectively implemented through the</p> <p>12 review of trade tickets and advising or making</p> <p>13 recommendations as necessary to Luxalpha's management</p> <p>14 company.</p> <p>15 So what that means is that at times some of the</p> <p>16 Access entities weren't even advising the funds directly,</p> <p>17 but rather were advising some of the UBS entities as</p> <p>18 necessary. And so their role was even again further removed</p> <p>19 from the United States. Again, not potentially even</p> <p>20 demonstrating a purposeful availment of their willingness to</p> <p>21 beholden to a court hearing in the United States.</p> <p>22 That entity did not direct any investments to the</p> <p>23 United States. It had no contacts with the forum. It could</p> <p>24 not make decisions on behalf of the fund. And so as a</p> <p>25 result, Your Honor, it never distributed or received funds</p>	<p style="text-align: right;">Page 80</p> <p>1 relationships between foreign entities and actions taken</p> <p>2 wholly outside of the United States. They are not -- they</p> <p>3 may have helped build the scaffolding for, as the trustee</p> <p>4 said, for these foreign funds, but that construction work</p> <p>5 was not done in the United States. It was all done outside</p> <p>6 of the United States, either in the Bahamas or Luxembourg.</p> <p>7 And there was no expectation that these entities who</p> <p>8 received fees outside of the United States for these</p> <p>9 services outside of the United States could behold into the</p> <p>10 United States to return those fees for services that they</p> <p>11 properly rendered.</p> <p>12 That brings us to the -- so that ends the entity</p> <p>13 discussion, and that brings us to an individual, Patrick</p> <p>14 Littaye, who is an individual defendant. We do move on</p> <p>15 behalf of Mr. Littaye to dismiss on jurisdiction of grounds.</p> <p>16 Mr. Littaye is a French citizen. He resided either in</p> <p>17 France or Belgium during the relevant period and operated in</p> <p>18 various capacities. But his principal work was done outside</p> <p>19 of the United States in Europe.</p> <p>20 In order to bring Mr. Littaye into U.S.</p> <p>21 jurisdiction, the trustee points to his ownership in some of</p> <p>22 the Access entities and also the fact that he was a</p> <p>23 corporate officer or director of some of the Access</p> <p>24 entities. And, Your Honor, in our brief, we argue that the</p> <p>25 ownership of some portions of entities is not sufficient for</p>
<p style="text-align: right;">Page 79</p> <p>1 on behalf of the investors of the funds. This was a</p> <p>2 separate entity providing advisory services offshore. And</p> <p>3 again, insufficient as a matter of law, Your Honor, as we</p> <p>4 describe in our brief, to demonstrate that it too could be</p> <p>5 beholden to the United States on jurisdictional grounds.</p> <p>6 The third entity -- third and last -- I'm sure</p> <p>7 you're thankful for that -- is Access Partners SA, which we</p> <p>8 describe as AP Lux. It's a Luxembourg entity. It too</p> <p>9 served as Luxalpha's investment advisor for a period of time</p> <p>10 from February 2007 until it liquidated. It was also</p> <p>11 designated as Groupement's investment advisor. And based on</p> <p>12 the trustee's own allegations, AP Lux was responsible for</p> <p>13 advising Luxalpha's portfolio managers, UBS, TPM, and AML --</p> <p>14 so again, one step removed -- with regard to investment</p> <p>15 recommendations. And it was -- AP Lux was entitled to</p> <p>16 receive a portion of management and performance fees from</p> <p>17 Luxalpha's portfolio manager, not Luxalpha directly. Again,</p> <p>18 one step removed. And that just -- again, their own</p> <p>19 allegations demonstrate that the monies did not flow</p> <p>20 directly from the funds, but even from foreign UBS entities.</p> <p>21 At some point, AP Lux was also a nominal advisor,</p> <p>22 Groupement Financier, for which it received some fees as</p> <p>23 well from Groupement's investment manager, not from</p> <p>24 Luxalpha.</p> <p>25 These contacts, Your Honor, unquestionably</p>	<p style="text-align: right;">Page 81</p> <p>1 jurisdictional purposes unless the corporate veil is</p> <p>2 pierced. And we go through great lengths to demonstrate</p> <p>3 that these corporate entities observed all of their</p> <p>4 formalities.</p> <p>5 With regard to his role as a corporate officer,</p> <p>6 the Court would not have jurisdiction over him as his role</p> <p>7 as a corporate officer unless the corporation was acting as</p> <p>8 his agent rather than vice versa where he is acting as agent</p> <p>9 for a corporation. And so for those reasons, those two</p> <p>10 prongs don't work.</p> <p>11 So the trustee then asserts a third prong and a</p> <p>12 third argument. And that is Mr. Littaye did attend meetings</p> <p>13 in the United States from time to time in connection with</p> <p>14 Access broadly speaking. Those meetings did take place in</p> <p>15 New York.</p> <p>16 Pursuant to Mr. Littaye's affidavit, those</p> <p>17 meetings were sporadic. They dealt with the US-based</p> <p>18 business -- I mentioned the 10 to 15 non-BLMIS funds -- and</p> <p>19 were not related to work for the four Luxalpha or</p> <p>20 Groupement. They certainly weren't related to subsequent</p> <p>21 transfers that were made.</p> <p>22 And so to the extent that Mr. Littaye had meetings</p> <p>23 in New York, there is no sufficient demonstration that those</p> <p>24 causes of action for subsequent transfers made to him, which</p> <p>25 went from BLMIS to the feeder funds mostly through UBS to</p>

Page 82	Page 84
<p>1 some of these other foreign Access entities and ultimately 2 to Mr. Littaye is insufficient to demonstrate jurisdiction 3 over him personally. 4 And I do -- I should mention for Mr. Littaye, he 5 also was not an investor, not an investor in either 6 Groupement or Luxalpha, but he was an investor in Madoff 7 through some other funds that's not alleged in the 8 complaint. But in his affidavit, Mr. Littaye says how he 9 lost millions of dollars through that investment. So to the 10 extent that people are trying to create Mr. Littaye as 11 having actual or any kind of knowledge, he wasn't very 12 successful since he lost millions of dollars in these other 13 investments with Madoff to everyone's shock and surprise 14 (indiscernible) went under. 15 The final point, Your Honor, that I think I need 16 to address in connection with jurisdiction is I think the 17 trustee recognizes the difficulty in proving jurisdiction on 18 an entity-by-entity basis, that the conduct is 19 extraterritorial and not sufficient to haul those folks into 20 the United States. 21 So what they have tried to do to get around that 22 is what I'll call, you know, to demonstrate that the 23 jurisdictional moving defendants were mere departments of 24 the Access New York entity, that they try and basically pull 25 away the corporate separateness of all of these entities.</p>	<p>1 and I quote, "The nearly identical ownership interest that 2 must be found before one corporation can be considered a 3 mere department of the other." And that's citing the Levant 4 Line case, 166 B.R. 221. 5 The ownership of Access LLC and AIA Inc. on the 6 one hand and the ownership of each of these other access 7 entities, the moving entities on the other, are neither 8 nearly identical nor do they have the degree of commonality 9 needed to satisfy a mere department showing. 10 There is also the financial interdependence that's 11 not existent, as I said before. These entities operated 12 separately, had their own monies coming in, had their own 13 contracts with service providers, et cetera, going out. 14 They observed their corporate formalities. Each one had 15 their own independent directors that did not overlap with 16 either AIA Inc. or AIA -- or Access LLC, the New York 17 entities. And there is some executive overlap that did 18 exist. But that's far below the mirror image symmetry 19 required to support mere department status. And I'm quoting 20 from the Reers v. Deutsche Bahn AG, 320 F.Supp. 2d 140 21 (S.D.N.Y. 2004). 22 And then there's the final point that to try and 23 get mere department showing, as the trustee talks about the 24 joint marketing, that somehow there are portions of websites 25 which talks about access globally. But the Courts have been</p>
Page 83	Page 85
<p>1 And, Your Honor, we went through a fair amount of 2 work to demonstrate how there was a distinct structure 3 between these entities. For the Court's purposes, we 4 submitted exhibits which show charts. And I think that's 5 the simplest way for the Court to see the difference between 6 these entities. For Access Limited, it's Exhibit 40 to Mr. 7 Littaye's affidavit. For AML, it's Exhibit 19, and for AP 8 Lux, it's Exhibit 8. And when you look at those exhibits -- 9 and we did have the supporting proof behind those -- they 10 demonstrate a number of things that prove that there should 11 be no collective jurisdiction, a piercing of the corporate 12 veil so to speak. 13 Each one of those entities had their own separate 14 constituted board of directors that conducted their business 15 outside of the United States. Each one of those entities 16 had offices in their respective jurisdictions, either in the 17 Bahamas or Luxembourg. Each of those entities had separate 18 contracts with their own separate providers and bore their 19 own share of expenses. They had independent and different 20 management teams, they had sperate bank accounts. Each of 21 those entities were not financially dependent on Access LLC 22 because they all earned their own fees. 23 And so as a result, when you look at the caselaw, 24 Your Honor, as to common ownership, of which there was none 25 -- there was some overlap -- the trustee cannot establish,</p>	<p>1 pretty clear that showing the joint marketing in those 2 efforts and not segregating every corporate entity when 3 doing marketing is insufficient to demonstrate mere 4 department status. 5 And then finally there is arguments about agency 6 and that the foreign principal has to exercise some element 7 of control over the in-state agent. But the trustee has 8 actually done the opposite and the trustee argues and claims 9 that each of the moving entities, the foreign entities, was 10 controlled by Access LLC or AIA Inc. And I'm citing to the 11 opposition brief at Pages 9 to 14 and also Page 17. 12 And this U.S. agent supposedly did not have the 13 authority to contractually bind the foreign entities and the 14 agent was not primarily employed by the foreign defendant 15 and did not engage in similar services for these entities. 16 The services that were rendered, again, for Groupement and 17 financier and Luxalpha all took place outside of the United 18 States. 19 So, Your Honor, with that, I believe that on the 20 jurisdictional grounds, the claims against the foreign 21 service providers and Mr. Littaye individually should be 22 dismissed on the basis of lack of personal jurisdiction. 23 With that, Your Honor, I will rest on my papers 24 with regard to the other arguments. 25 THE COURT: And who is doing rebuttal?</p>

Page 86	Page 88
<p>1 MS. FERNANDEZ: Good morning, Your Honor. Jessica</p> <p>2 Fernandez, associate of Baker Hostetler, counsel for</p> <p>3 trustee, Irving Picard.</p> <p>4 I will be arguing on behalf of the trustee in</p> <p>5 opposition to the Access defendant's motion to dismiss for</p> <p>6 lack of personal jurisdiction. Defendants, Access</p> <p>7 International Advisors Limited, Access Management Luxembourg</p> <p>8 SA, Access Partners SA, and Patrick Littaye all moved for</p> <p>9 lack of personal jurisdiction while Access International</p> <p>10 Advisors LLC did not, as it is based in New York.</p> <p>11 Defendants challenged the sufficiency and accuracy</p> <p>12 of our allegations by trying to argue that the various</p> <p>13 Access entities were actually separate and distinct.</p> <p>14 Looking at the totality of the circumstances, by viewing the</p> <p>15 pleading in the light most favorable to the Plaintiff, the</p> <p>16 trustee has made a prima facie showing that jurisdiction</p> <p>17 exists over defendants by sufficiently alleging that the</p> <p>18 Access entities are subject to this Court's jurisdiction as</p> <p>19 mere departments of Access International Advisors LLC and</p> <p>20 Access International Advisors Inc., its predecessor, both</p> <p>21 located in New York.</p> <p>22 Defendants argue that the Trustee only points to</p> <p>23 contacts among foreign entities and actions taken or</p> <p>24 performed outside of the United States. Their complaint</p> <p>25 sufficiently alleges the contrary. Littaye has had a long-</p>	<p>1 This very same issue has actually been litigated</p> <p>2 in this jurisdiction in SPV Osus Ltd. v. AIA LLC, an action</p> <p>3 stemming from the Madoff fraud where Judge Rakoff found that</p> <p>4 what plaintiff pleaded was enough to make a prima facie</p> <p>5 showing of jurisdiction over the very same Access defendants</p> <p>6 as they were mere departments of Access International</p> <p>7 Advisors LLC and found that the requirement of common</p> <p>8 ownership of these Access entities was satisfied.</p> <p>9 Here, the trustee has adequately pled that the</p> <p>10 Access entities were mere departments of Access New York.</p> <p>11 Even if the Access entities are not viewed as mere</p> <p>12 departments of Access International Advisors LLC and Access</p> <p>13 International Advisors Inc., this Court should still</p> <p>14 emphasize specific jurisdiction over each of the Access</p> <p>15 defendants because they directed investments in BLMIS in New</p> <p>16 York.</p> <p>17 These Access entities created, marketed, promoted,</p> <p>18 serviced the funds, and these entities did everything to</p> <p>19 direct and create the opportunity for investments into</p> <p>20 BLMIS. The Access entities created numerous funds,</p> <p>21 including Luxalpha and Groupement, and channeled over \$2</p> <p>22 billion into BLMIS through these funds. It is undeniable</p> <p>23 that Littaye and the Access entities directed investments</p> <p>24 into BLMIS, received redemptions from BLMIS, and earned fees</p> <p>25 for the services they provided to those funds such that they</p>
Page 87	Page 89
<p>1 lasting relationship with Madoff since 1985. Stemming from</p> <p>2 that relationship, Littaye and Villehuchet created a series</p> <p>3 of investment companies, the Access defendants, which</p> <p>4 operated as a single business entity. And that same entity</p> <p>5 created and serviced the funds, Luxalpha and Groupement</p> <p>6 among others, to direct investments in BLMIS in New York.</p> <p>7 The primary purpose of these entities was to receive fees</p> <p>8 for servicing those funds. To the extent they had any</p> <p>9 corporate duties, they were performed by Access personnel in</p> <p>10 New York because the Access entities were shell companies</p> <p>11 with no regular employees.</p> <p>12 There was an absence of formalities as well among</p> <p>13 the entities. One Access entity often acted on behalf of</p> <p>14 another and the employees of Access entities performed work</p> <p>15 across all the entities without regard of which entity</p> <p>16 formally employed them. Access and its employees also</p> <p>17 commonly used collective names such as Access or AIA Group,</p> <p>18 emphasizing their operation as a single business entity.</p> <p>19 The trustee alleges the absence of formalities</p> <p>20 amongst the Access entity stemmed from the entity's common</p> <p>21 ownership with both Littaye and Villehuchet, who as we</p> <p>22 alleged, completely or nearly completely owned, controlled,</p> <p>23 or dominated the Access entities. The Access entities were</p> <p>24 present in New York through Access International Advisors</p> <p>25 LLC and Access International Advisors Limited.</p>	<p>1 purposely availed themselves of the benefits of investing in</p> <p>2 New York.</p> <p>3 Mr. Paccione argues that the Access defendant had</p> <p>4 other on-BLMIS business. But what he omits to say is that</p> <p>5 92 percent of Access revenue stemmed from BLMIS investment.</p> <p>6 I will now turn to the specific allegations</p> <p>7 against each Access entity to establish they directed</p> <p>8 investments into BLMIS in New York.</p> <p>9 As for Access International Advisors Limited, it</p> <p>10 was Luxalpha's official consultant and exclusive introducing</p> <p>11 agent. It was also Groupement's investment manager,</p> <p>12 operator, and investment advisor. As investment manager,</p> <p>13 Access International Advisors Limited was required to keep</p> <p>14 the net assets of the funds under surveillance and constant</p> <p>15 review, carry out reviews and controls of their portfolio.</p> <p>16 The purpose of this entity was to be an offshore entity that</p> <p>17 was a money box set up to receive fees on behalf of Access.</p> <p>18 Mr. Paccione points out to a communication with</p> <p>19 BLMIS and this entity. That further undercuts the false</p> <p>20 suggestion that New York Access entities were only involved</p> <p>21 with non-Madoff funds.</p> <p>22 As for Access Management Luxembourg SA, it was</p> <p>23 nominally Luxalpha's portfolio manager. It had to promote</p> <p>24 the fund, solicited subscriptions, and receive</p> <p>25 (indiscernible) redemptions. It was also Luxalpha's</p>

<p style="text-align: right;">Page 90</p> <p>1 portfolio advisor, advising UBS SA in connection with its 2 role as Luxalpha's portfolio manager. 3 As for Groupement and Groupement Levered, it acted 4 as its investment advisor. 5 Access Partners SA was the investment advisor to 6 Luxalpha. It was also the nominal advisor of Groupement 7 Financier and Groupement Levered. It was created to protect 8 Luxalpha and BLMIS from U.S. regulatory scrutiny at the 9 request of Madoff. Each Access entity received fees for the 10 services they performed for the funds, and the trustee is 11 seeking those very same fees. 12 As to Littaye, the Trustee has sufficiently pled 13 that he had numerous substantive contacts with New York that 14 establish this Court's jurisdiction over him. Mr. Paccione 15 again argues that Littaye's meetings in New York were 16 sporadic and not related to their feeder funds or BLMIS 17 investment. (indiscernible) is a factual issue, and our 18 complaint sufficiently alleges the contrary. As the trustee 19 alleged, Littaye made quarterly visits in New York to visit 20 Madoff. He attended Access quarterly strategic meetings in 21 New York. He made sure that he was the sole point of 22 contact between Access and Madoff. He also closed down the 23 2006 Chris Cutler investigation in New York himself. Any 24 issues, questions, or concerns regarding the several access 25 funds that maintain accounts with BLMIS were addressed by</p>	<p style="text-align: right;">Page 92</p> <p>1 I know that Mr. Paccione has gone into detail as 2 to the amount of documents produced to date. And if Your 3 Honor would like me to get into that production, I can do 4 so. And if not -- 5 THE COURT: Wait a second. I would like a summary 6 of what you received. There is one thing to have volume. 7 It's another thing to have detail. So tell me what you've 8 got. 9 MS. FERNANDEZ: Exactly, Your Honor. Although 10 Access is throwing a high number of documents produced, they 11 only produced electronic documents from their New York 12 server. And that included a lot of spam emails and non- 13 relevant documents. That production also did not include 14 any paper documents nor the books and records of the other 15 Access entities. And we have been in communication with 16 Access counsel regarding the production, and they let us 17 know that they had already preserved documents in Europe. 18 And to date we have not received those documents. 19 THE COURT: Mr. Paccione also said something about 20 that Mr. Littaye was a loser. Is he a net winner or is he a 21 net loser? Do you know, Mr. Paccione, do you know? 22 MR. PACCIONE: In his affidavit -- declaration 23 that he submitted, he declares that he was a net loser, Your 24 Honor. But a net loser -- he invested, again, not through 25 Groupement or Luxalpha, but through another feeder fund.</p>
<p style="text-align: right;">Page 91</p> <p>1 and had to be run through Littaye. Littaye coordinated, 2 dominated, and controlled Access, serving as a director and 3 executor for all the Access entities and sat on the board of 4 directors of both Luxalpha and Groupement. 5 In isolation, these contacts would be sufficient 6 to support jurisdiction. In their totality, they undeniably 7 establish that Littaye purposely directed his activities to 8 New York. 9 Judge Rakoff, again in SPV Osus, already found 10 that Littaye's quarterly meetings with Madoff in New York 11 and his efforts to shut down discussions of BLMIS 12 irregularities in a 2006 meeting in New York were more than 13 sufficient to make a prima facie case of jurisdiction over 14 Littaye. The trustee alleges the same facts as well as 15 numerous others that support specific jurisdiction over 16 Littaye. The trustee's underlying claims arise out of or 17 relate to Defendant's contacts as the trustee seeks to 18 recover the fees the Access defendants received for the 19 services provided to the funds for directing investment in 20 BLMIS in New York. 21 In conclusion, Your Honor, the Trustee has made a 22 prima facie showing of jurisdiction over each of the Access 23 defendants. And at a minimum, the trustee is entitled to 24 jurisdictional discovery as the trustee has put forth a 25 reasonable basis for jurisdiction over defendants.</p>	<p style="text-align: right;">Page 93</p> <p>1 THE COURT: But he has profits through his fees, 2 right? 3 MS. FERNANDEZ: Yes, Your Honor. And that's what 4 we alleged. 5 THE COURT: Okay. Rebuttal -- not just rebuttal, 6 but anything you want to add? 7 MR. PACCIONE: Yes, Your Honor. I have a couple 8 of points. I just want to make sure that -- there was a 9 reference to -- and I want to focus on the Access entities 10 for a moment. There was a reference to one of them 11 receiving subscriptions or dealing with subscriptions and 12 investments. Your Honor, that's not dealing with the 13 redemptions, for example, from Madoff to the feeder funds. 14 Rather, these are the entities that interface with the 15 foreign investors in Groupement and Luxalpha. So the 16 reference -- there is no allegation still, notwithstanding 17 what we just heard, not a single allegation of any conduct 18 by the three corporate entities that we've been talking 19 about that took place in the United States. Not a single 20 one. 21 With regard to the SPV Osus decision that's been 22 bandied about, Your Honor, that was not a subsequent 23 transfer case. It wasn't a bankruptcy case. It was a tort 24 case. The court -- the phrase that's being quoted was pure 25 dictum. He did not rule on jurisdictional grounds on that</p>

Page 94	Page 96
<p>1 particular point. He said in dictum given what I'm hearing, 2 there may be a need for discovery and a hearing on this 3 jurisdictional aspect. But again, that was a different 4 case, different claims, some different parties. And most 5 importantly, Your Honor, in that case, the plaintiffs did 6 not have access to the millions of documents that have been 7 produced to the trustee like here. And so Judge Rakoff, if 8 he was thinking about jurisdictional discovery, it was in 9 that context.</p> <p>10 As to that document issue, Your Honor, there were 11 indeed 4.5 million documents. Because what we did was we 12 turned over -- my firm, before I took over this case, turned 13 over the entire server that was in the New York office. So 14 it was -- it did include junk email. But we said here, you 15 want it, you can have it. And we gave them everything. We 16 did make hard copies available. Notwithstanding what I 17 heard from counsel, those hard copies were actually scanned 18 and part of the production as based as what we know.</p> <p>19 And in terms of other documents outside of the 20 United -- so if the trustee wanted to see what 21 communications were had from the foreign entities to the New 22 York office, they have the source of that. They have the 23 source because they have the entire New York server. There 24 is no need for jurisdiction to find who else -- what else 25 was sent directly to the New York office.</p>	<p>1 for other entities and had multiple email addresses. But 2 that's enough to disregard the corporate form. And that's 3 the (indiscernible) case on Page 11, Footnote 9.</p> <p>4 So, Your Honor, unless the Court has any other 5 questions, we will rest.</p> <p>6 THE COURT: Anything anyone wishes to add on the 7 Access, Littaye, and Villehuchet? Yes, ma'am.</p> <p>8 MS. FERNANDEZ: Nothing from me, Your Honor.</p> <p>9 THE COURT: Well then now we are at the motion to 10 dismiss by Theodore Dumbauld.</p> <p>11 MR. KNUTS: Good afternoon, Your Honor. Again, 12 it's Robert Knuts from the Sher Tremonte firm for Defendant, 13 Theodore Dumbauld.</p> <p>14 Unlike the prior arguments, I can say that Mr. 15 Dumbauld is fully subject to this Court's jurisdiction as an 16 American. In fact, a graduate of the Naval Academy. So I 17 won't be talking at all about jurisdiction.</p> <p>18 THE COURT: Okay.</p> <p>19 MR. KNUTS: In our papers, the motion to dismiss, 20 we presented several arguments in favor of that motion. I 21 want to focus my time today on one of those. And that is 22 the employee compensation issue.</p> <p>23 At Page 29 of our moving brief, we quoted from a 24 case called Geltzer, which concluded that an officer or 25 employee who is the recipient of a salary from a company</p>
Page 95	Page 97
<p>1 To the extent that they want to see communications 2 directly to Madoff in New York, well, they have access to 3 that because they have tens of thousands of boxes, not to 4 mention scores of data from Madoff to also demonstrate what 5 contacts were made from Access Europe to Madoff directly.</p> <p>6 So this notion that somehow there's jurisdictional 7 discovery that's needed really just doesn't fly, Your Honor. 8 They have everything that they need.</p> <p>9 And it also undercuts, Your Honor, if they're 10 saying that the New York documents weren't sufficient, then 11 it sort of suggests that the New York entities weren't the 12 center of the universe for these foreign funds. If they 13 were, then they would have seen everything that they need to 14 see. This proves that the efforts and the energies and the 15 services that were provided and the monies received all took 16 place outside of New York and all took place offshore in 17 Europe, Your Honor. So as a result of that, I think our 18 jurisdictional arguments -- I think we could rest on our 19 papers.</p> <p>20 One other point in terms of employees and shell 21 companies. There were references to that. I think we 22 disproved that in the underlying papers in terms of separate 23 directors, existing bank accounts, fees being earned. And 24 there are times -- and there's a case cited on Page 11, 25 Footnote 9, where sometimes employees at times perform work</p>	<p>1 that received an allegedly fraudulent transfer is not 2 without more the subsequent transferee of the conveyance.</p> <p>3 The trustee addressed this argument in their 4 opposition brief at Page 69 and essentially tries to rebut 5 that in three ways. I mean, first, the Trustee claims that 6 he is unable to confirm that the only money transfers made 7 to Mr. Dumbauld were in the form of employee or officer 8 compensation. But that --</p> <p>9 THE COURT: Let me stop you right there, because 10 that was one of my questions. Have you given that brief to 11 the trustee?</p> <p>12 MR. KNUTS: Well, back in the Rule 2004 days, we 13 turned over all the documents they asked for. I assumed 14 that on the server, the Access server it included, you know, 15 payroll documentation and everything --</p> <p>16 THE COURT: But you didn't break it out yourself 17 and even make yourself aware of that. Basically where did 18 the money come from if it wasn't from BLMIS, that's...</p> <p>19 MR. KNUTS: Well, as the trustee has alleged in 20 both the first amended complaint and the second amended 21 complaint and as Mr. Paccione mentioned earlier, Access in 22 New York had other services that they provided to clients 23 relating to completely unrelated funds. You know, it had 24 nothing to do with BLMIS. For example --</p> <p>25 THE COURT: But you didn't break it out even for</p>

<p style="text-align: right;">Page 98</p> <p>1 yourself.</p> <p>2 MR. KNUTS: In terms of -- well, first of all, by</p> <p>3 the time this case started, Mr. Dumbauld had long left the</p> <p>4 employment of Access. And I have not had the ability to go</p> <p>5 back into Access's payroll records to determine what</p> <p>6 percentage of income related to BLMIS versus --</p> <p>7 THE COURT: Well, just so you know, because the</p> <p>8 trustee has alleged that only five percent of that business</p> <p>9 was not BLMIS. So I was just curious if you did that for</p> <p>10 your own sake or when you're making these arguments you too</p> <p>11 have already done your own research on this. And your</p> <p>12 answer is no.</p> <p>13 MR. KNUTS: Without Access, I couldn't do the same</p> <p>14 research that Mr. Paccione could do or others. But I will</p> <p>15 point out, Your Honor, that there have been -- the Trustee</p> <p>16 has made different allegations about different time periods.</p> <p>17 For example, in the first amended complaint, he</p> <p>18 alleged during 2005 that Access's BLMIS revenue was only 61</p> <p>19 percent of its total revenue. And now in the second amended</p> <p>20 complaint, it does say by 2008 that it had grown to 92</p> <p>21 percent. So it did vary over time.</p> <p>22 THE COURT: Yeah, but I was just asking for your</p> <p>23 own sake, your arguments, if you'd looked. Okay.</p> <p>24 (indiscernible).</p> <p>25 MR. KNUTS: Sure. Well, one thing I know for</p>	<p style="text-align: right;">Page 100</p> <p>1 argues that the second amended complaint includes</p> <p>2 allegations that Mr. Dumbauld did not receive his</p> <p>3 compensation in good faith. But when you look at the</p> <p>4 allegations that he relies on on Page 69 and you actually go</p> <p>5 back and read those allegations that are in the second</p> <p>6 amended complaint, you'll see there's no factual allegation</p> <p>7 that Mr. Dumbauld ever acted in bad faith. The factual</p> <p>8 allegations concerning Mr. Dumbauld are he was given an</p> <p>9 assignment to analyze Madoff trading, he performed that</p> <p>10 assignment, he provided the results of his analysis to his</p> <p>11 superiors at Access. He was then told to get somebody else</p> <p>12 to take a look at the analysis. He did. He found who the</p> <p>13 trustee believes is extremely competent, Mr. Cutler, to</p> <p>14 conduct another analysis. And he then facilitated Mr.</p> <p>15 Cutler to report those results to the people at Access, his</p> <p>16 bosses.</p> <p>17 There is nothing -- in every step of the way, Mr.</p> <p>18 Dumbauld did the right thing. He did the work honestly, he</p> <p>19 reported honestly. He described exactly what he learned.</p> <p>20 Mr. Cutler, he did nothing to interfere with Mr. Cutler,</p> <p>21 describing what Mr. Cutler learned. You know, there's no</p> <p>22 allegation in the second amended complaint that Mr. Dumbauld</p> <p>23 as an individual had any authority to do anything else at</p> <p>24 Access with that information. And so in fact there is no</p> <p>25 allegation in the second amended complaint that he acted in</p>
<p style="text-align: right;">Page 99</p> <p>1 sure, Your Honor, and that is the amount of revenues that</p> <p>2 were unrelated to BLMIS at Access more than covered the</p> <p>3 monies paid to Ted Dumbauld. That's absolutely for certain.</p> <p>4 I mean, the total -- they had revenues in excess of the</p> <p>5 \$1.25 million that the trustee alleges was received by Mr.</p> <p>6 Dumbauld during the relevant time period and could involve</p> <p>7 subsequent transfers. We know for sure that there was a lot</p> <p>8 more money going through Access than that. But --</p> <p>9 THE COURT: Of course he wasn't the only expense.</p> <p>10 But that's another point.</p> <p>11 MR. KNUTS: Absolutely, Your Honor. But what I</p> <p>12 want to -- so a couple of things just turning back to this,</p> <p>13 a little hint in saying he doesn't have the ability to</p> <p>14 confirm that the only money received by Mr. Dumbauld was</p> <p>15 compensation, employee compensation. In fact, Paragraph 337</p> <p>16 of the second amended complaint says that the \$1.25 million</p> <p>17 wasn't, you know, officer employee compensation. So he</p> <p>18 cannot say in his opposition papers something that's</p> <p>19 inconsistent with the actual allegation in the second</p> <p>20 amended complaint. He's made the affirmative obligation</p> <p>21 that it was compensation, and he should be stuck with that.</p> <p>22 And actually, he is stuck with that because that's the</p> <p>23 section (indiscernible).</p> <p>24 The second argument that the trustee makes</p> <p>25 concerning how he's not bound by the Geltzer case is that he</p>	<p style="text-align: right;">Page 101</p> <p>1 bad faith in some way at any point in time.</p> <p>2 And then lastly, the trustee makes the argument</p> <p>3 that it's unclear in some way whether the compensation that</p> <p>4 Mr. Dumbauld received as an employee and officer of Access</p> <p>5 was received "for value". Because he says that that's</p> <p>6 another ground for getting out from the Geltzer decision.</p> <p>7 But again, there is nothing in the second amended complaint</p> <p>8 that actually alleges that Mr. Dumbauld did not provide</p> <p>9 value for that compensation. It's just not there. And</p> <p>10 without an affirmative allegation saying that this was --</p> <p>11 that services were provide for no value, you don't have a</p> <p>12 claim. It's just not the case that you can sort of say</p> <p>13 there may be other issues here. You know, you have to</p> <p>14 actually affirmatively say that there's an issue in a</p> <p>15 complaint in order to make a claim.</p> <p>16 So I think the sum and substance of the Geltzer</p> <p>17 argument about employee compensation is that you can in fact</p> <p>18 under the right circumstances make specific -- as a trustee</p> <p>19 make specific allegations to put an employee's compensation</p> <p>20 in play as a subsequent transferee. But if Your Honor were</p> <p>21 to deny Mr. Dumbauld's motion to dismiss when there are no -</p> <p>22 - those type of allegations don't actually exist in the</p> <p>23 second amended complaint, then I think it could create a</p> <p>24 really problematic precedent for future Ponzi cases and</p> <p>25 future trustees. You know, they would be encouraged to name</p>

Page 102	Page 104
<p>1 other employees trying to claw back compensation just 2 because the compensation was received during a time period 3 when there was also initial transfers that could have flowed 4 downwind. And it's not going to be just the Ted Dumbaulds 5 of the world who are then subject to that kind of claim. 6 And so I would urge Your Honor to really hold the 7 trustee's obligation, you know, hold them to the obligation 8 that the Geltzer case said, which is if you've got actual 9 allegations, specific factual allegations of bad faith or no 10 value for the compensation, then okay, maybe you can tag an 11 employee with possibly getting his compensation clawed back. 12 But because that's not here, Your Honor should dismiss Ted 13 Dumbauld from this case. 14 I mean, if you look at the second amended 15 complaint on Page 83, they put together a chart showing all 16 the funds flows and everything else. And there's Ted 17 Dumbauld, floating somewhere on the page. You know, without 18 any lines drawn to him, anything, just because he received 19 compensation during a relevant time period. That's not what 20 a subsequent transferee case should be involving an 21 employee. And for the rest of our arguments, we'll rest on 22 what we put in our papers. Thank you. 23 THE COURT: Rebuttal? Yeah, you were on mute. We 24 didn't get your name. 25 MS. USITALO: Sorry about that. Michelle Usitalo,</p>	<p>1 first. 2 MR. USITALO: Okay, I will do that. And I think 3 as Your Honor pointed out, the issues here too are the fact 4 that the Trustee has alleged in a plain statement in his 5 complaint, which is all that's required at this stage of the 6 litigation, that Mr. Dumbauld received the \$1.2 million in 7 transfers. And we allege that it was at least that amount 8 in compensation. But to note, Mr. Dumbauld was also a 9 partner of Access LLC and he was also the chief investment 10 advisor. So there could be additional transfers there as 11 well as a result of fees that Access received and their LLC 12 received in their role. 13 But particularly too on the point with the fact 14 that it is compensation that is being alleged, we did allege 15 the more that Mr. Knuts was referring to. And I know he 16 characterized it in a certain way, but that's not what is 17 appropriate here. It's the Trustee's allegation that must 18 be taken as true and inferences made in his favor. And the 19 Trustee has alleged that when concerns were raised about 20 Madoff's trading activity that Mr. Dumbauld, as Access's 21 chief investment advisor, was asked to perform an analysis 22 of that trading activity, and he could not confirm that the 23 trading activity was taking place. And then when he was 24 asked to get a second opinion and they hired Mr. Chris 25 Cutler to perform a similar analysis, this resulted in Mr.</p>
Page 103	Page 105
<p>1 Baker Hostetler, for the trustee, Your Honor. And I am 2 responding to a few issues here under the arguments that the 3 defendants have made on the 12(b)(6) issues. 4 I can address first some of the arguments that 5 were just raised with respect to Mr. Dumbauld specifically 6 and then I will turn to some of those other -- 7 THE COURT: Did you not do that when we were 8 having the argument earlier? I'm missing something here. 9 THE COURT: Yes. Sorry, Your Honor. No, I am 10 addressing -- so it was -- Mr. King addressed the issues of 11 the Trustee's allegations concerning actual knowledge and 12 also generally the issues of the sufficiency of the 13 Trustee's pleadings with respect to customer property for 14 each of the defendants. And I know that we've touched on 15 parts of the customer property issue already, but I did have 16 some further joinders that apply to all of the defendants -- 17 THE COURT: Okay. I'm a little flummoxed because 18 I thought we addressed those at the time we were addressing 19 them. 20 MR. USITALO: Apologies, Your Honor -- 21 THE COURT: You're going to do the lumping. 22 MR. USITALO: Well, that -- apologies, Your Honor. 23 As we were addressing the personal jurisdiction issue 24 specifically with respect to each defendant -- 25 THE COURT: Okay, all right. But answer Mr. Knuts</p>	<p>1 Cutler coming to Mr. Dumbauld and telling him -- and this is 2 quoted in the trustee's complaint -- that if BLMIS were a 3 new investment, he would likely shove it out the door. 4 Mr. Dumbauld was also present at the meeting where 5 this analysis was presented to Littaye and Villehuchet. So 6 there is the more here that is required. And the trustee 7 doesn't have to prove those allegations at this point, just 8 merely allege that there is more to just Mr. Dumbauld being 9 an employee of Access. He was an integral part of Access 10 and he had the more that is required here. 11 THE COURT: Excellent. And I apologize to you 12 because I think I did basically let you reserve your 13 jurisdictional rebuttal. And I took a break instead of 14 listening to you. So I apologize. 15 MR. USITALO: No, that is no problem. 16 I will turn to the arguments that the defendants 17 have made with respect to 546(e) and the -- 18 THE COURT: You're talking about UBS now, right? 19 MR. USITALO: I am talking about UBS because they 20 -- I'm sorry. UBS has made the arguments today, but -- 21 THE COURT: Non-jurisdictional, right. 22 MR. USITALO: Non-jurisdictional, yes. All of the 23 parties have taken -- made the same arguments in their 24 papers as well as adopted the arguments of UBS. So I 25 believe it was Mr. King who was presenting those arguments</p>

<p style="text-align: right;">Page 106</p> <p>1 today, but all of the Defendants participated.</p> <p>2 THE COURT: Okay.</p> <p>3 MR. USITALO: And since they didn't touch -- since</p> <p>4 Mr. King didn't touch on the legal arguments of 546(e) and</p> <p>5 Your Honor has already addressed those, we too will rely on</p> <p>6 our papers in that respect.</p> <p>7 But I do want to address the defendant's arguments</p> <p>8 that the trustee has not adequately pled that Luxalpha and</p> <p>9 Groupement, the initial transferees, have the requisite</p> <p>10 actual knowledge that permits the trustee to pursue his</p> <p>11 claims for avoiding transfers beyond the two years.</p> <p>12 And I know it's been mentioned already, Your</p> <p>13 Honor, but it's important again to emphasize that the</p> <p>14 standard here is that the trustee's allegations must be</p> <p>15 taken as true and all inferences made in his favor. And</p> <p>16 when that analysis is performed here, those inferences make</p> <p>17 out a plausible claim.</p> <p>18 And we've discussed it quite a bit here today, but</p> <p>19 both Luxalpha and Groupement are groups that operated solely</p> <p>20 through their agents. And this includes the UBS defendants</p> <p>21 and the Access defendants that were acting as directors and</p> <p>22 service providers. And the trustee has alleged that the</p> <p>23 conduct and knowledge of those defendants should thus be</p> <p>24 imputed to Luxalpha and Groupement. And the trustee has</p> <p>25 also pled in his allegations that Luxalpha and Groupement</p>	<p style="text-align: right;">Page 108</p> <p>1 allegations that amount to actual knowledge. And I note as</p> <p>2 well that some of those allegations that were up on the</p> <p>3 screen in those particular allegation callouts, there were</p> <p>4 allegations that the trustee has alleged that the defendants</p> <p>5 knew. I noted those parts weren't highlighted, but they</p> <p>6 were there.</p> <p>7 And in going through the trustee's allegations, I</p> <p>8 think we first must begin with the allegations that the UBS</p> <p>9 and Access defendants deliberately deceived the Luxalpha --</p> <p>10 sorry, the Luxembourg regulator, which was referred to as</p> <p>11 the CSSF, by failing to disclose BLMIS' multiple roles in</p> <p>12 the fund. Luxalpha, as we noted, has filed their answer in</p> <p>13 this proceeding. And in its answer, Luxalpha admitted that</p> <p>14 the purpose of the USITC's regulations is to protect against</p> <p>15 fraud, and the UBS defendants and Access defendants set up a</p> <p>16 structure for Luxalpha that was not in compliance with</p> <p>17 USITC's regulations, and the Access defendants knew this.</p> <p>18 And how do we know they knew? Because the trustee</p> <p>19 alleges that Access had originally operated (indiscernible)</p> <p>20 another BLMIS feeder fund, with BNP Paribas acting as the</p> <p>21 sponsor of the fund. And in a meeting with Access, BNP said</p> <p>22 that BLMIS' role as both custodian and investment advisor</p> <p>23 was unconscionable, violated BNP's internal security rules,</p> <p>24 and Luxembourg law. And BNP proposed a path forward to</p> <p>25 address these concerns and said they either needed to</p>
<p style="text-align: right;">Page 107</p> <p>1 had actual knowledge that BLMIS and that the defendants knew</p> <p>2 that BLMIS was operating a fraud and that Luxalpha and</p> <p>3 Groupement's agents knew that Madoff could not be executing</p> <p>4 all the securities transactions he reported. Specifically,</p> <p>5 Luxalpha and Groupement knew, the trustee alleges, that the</p> <p>6 volume of options trades Madoff purported to execute on</p> <p>7 their behalf was impossible and that Madoff lied about the</p> <p>8 identify of his purported options counterparties and that</p> <p>9 Luxalpha and Groupement knew that the returns BLMIS claimed</p> <p>10 to produce were impossible given its stated trading strategy</p> <p>11 and that Luxalpha and Groupement knew that BLMIS reported</p> <p>12 trades as having been made at impossible times and prices</p> <p>13 and that these funds' agents were aware of signs of fraud at</p> <p>14 BLMIS and that Patrick Littaye actively impeded any inquiry</p> <p>15 into the signs of fraud by quashing and deflecting</p> <p>16 questions. And the trustee alleges that Luxalpha and</p> <p>17 Groupement's awareness of BLMIS' impossible trading activity</p> <p>18 and performance, demonstrable awareness of the fraud and the</p> <p>19 directors' and managers' deliberate actions to protect</p> <p>20 Madoff established defendant's knowledge of fraud. And the</p> <p>21 trustee goes on at length in his complaint to provide</p> <p>22 allegations in support of this.</p> <p>23 And it's the trustee's position that all of those</p> <p>24 allegations that filled all of our screens when Mr. King was</p> <p>25 speaking amount to a totality of -- the totality of</p>	<p style="text-align: right;">Page 109</p> <p>1 identify BLMIS to the CSSF or get real-time trading access</p> <p>2 from Madoff. Madoff said no, BNP said it would not go</p> <p>3 forward, and (indiscernible) closed. But Access moved on</p> <p>4 and opened Luxalpha without missing a day of investment with</p> <p>5 BLMIS. And this time, UBS acted as its sponsor.</p> <p>6 In deliberately deceiving the CSSF and not</p> <p>7 identifying BLMIS' multiple roles for Luxalpha, the Access</p> <p>8 and UBS defendants aren't overlooking laws and regulations</p> <p>9 to make money; they are purposely circumventing laws meant</p> <p>10 to prevent fraud, to expose people like Madoff. And they</p> <p>11 aren't overlooking; the trustee alleges they are lying.</p> <p>12 Lying to the CSSF, withholding information to the SEC about</p> <p>13 whether or not they acted as a counterparty to Madoff,</p> <p>14 helping Madoff avoid SEC scrutiny by setting up an Access</p> <p>15 entity that purportedly acted as an investment advisor.</p> <p>16 But why tell these lies? Why prevent Madoff from</p> <p>17 being exposed? Why go to such great length to perpetuate a</p> <p>18 structure that allows fraud? The inference that can be</p> <p>19 drawn here is that they did it because they knew. And this</p> <p>20 knowledge belongs to the funds, Luxalpha and Groupement,</p> <p>21 because it was their agents and their service providers that</p> <p>22 told these lies and that took these actions.</p> <p>23 The trustee alleges that UBS and Access both had</p> <p>24 anti-fraud due diligence procedures in place. Did BLMIS go</p> <p>25 through these procedures? The trustee alleges it did not.</p>

<p style="text-align: right;">Page 110</p> <p>1 Why did it not? The inference that can be drawn here is 2 because Luxalpha's service providers knew that BLMIS would 3 not pass. Some due diligence occurred when someone raised a 4 flag about Madoff's trading. And I mentioned this. And it 5 was first Mr. Dumbauld as Access's chief investment officer 6 that reviewed the trading activity and confirmed that the 7 options trades purportedly being made by Madoff didn't 8 appear in the database as they should of.</p> <p>9 Then Access hired Chris Cutler to perform that 10 analysis and other analysis, and he did perform that 11 analysis. And as a result, Cutler recommended that Access 12 exit all investments with BLMIS. And he shared the results 13 of his inquiry with Littaye and Villehuchet. And what did 14 they do? They cut Cutler's investigation short and 15 suppressed his findings.</p> <p>16 Now, I know the defendants in their papers and in 17 their arguments today may offer alternative explanations for 18 these conducts or these statements. But these explanations 19 are not relevant at this stage of litigation where it is the 20 trustee's allegations that must be taken as true. And the 21 trustee alleges that Access and UBS defendants' conduct 22 reflects their knowledge of Madoff's fraud.</p> <p>23 And to give an example, UBS takes the Trustee's 24 allegations of the knowledge of fraud and claims that these 25 allegations just plead that UBS had different risk</p>	<p style="text-align: right;">Page 112</p> <p>1 confirmed that Madoff -- could confirm that Madoff was 2 making his options trades. Both Mr. Cutler and UBS noted 3 that Madoff's strategy could not produce the returns 4 reported. UBS identified out-of-range prices in a BLMIS 5 trade confirmation and Access knew that the appointment of 6 Friehling & Horowitz as BLMIS' auditor caused concern. And 7 in response, Littaye gave the instruction, don't go further.</p> <p>8 And with respect to counterparties, Chris Cutler 9 noted, "I just can't find the other side of the trade." And 10 when a Swiss private bank directly asked Madof to identify 11 the counterparties, Madoff called Littaye with an 12 explanation that Littaye didn't understand and Villehuchet 13 asked the bank to stop contacting Madoff.</p> <p>14 And when the SEC came to UBS in the U.S. and asked 15 if one of its affiliates was acting as one of Madoff's 16 counterparties, UBS told the SEC they would have to go ask 17 the affiliates themselves.</p> <p>18 THE COURT: I have a question.</p> <p>19 MS. USITALO: Sure.</p> <p>20 THE COURT: You keep talking about the UBS 21 affiliates. Are you talking about SA, are you talking about 22 AG? How are you -- link those for me.</p> <p>23 MS. USITALO: So with respect to the review of the 24 trading activity, it was UBS SA and the custodian and 25 administrator that were reviewing those statements and</p>
<p style="text-align: right;">Page 111</p> <p>1 tolerances. Again, this explanation is irrelevant, but it 2 also opens the door for further questions. Risk of what? 3 Risk that Madoff's fraud would be exposed? UBS's argument 4 simply illuminates that perhaps UBS was willing to act as 5 Luxalpha and Groupement's service provider because the 6 potential for income was so great that it was worth it in 7 the event that Madoff's fraud was never exposed. In fact, 8 the trustee alleges that this was UBS's very thinking.</p> <p>9 Business is business was an instruction from a 10 Luxalpha director and UBS managing director. We cannot 11 permit ourselves to lose \$300 million. Accept client. The 12 plausible inference from this statement was not that they 13 didn't have actual knowledge of Madoff's fraud. Instead, 14 that they didn't care if they did. And in any event, it 15 presents a question of fact.</p> <p>16 And defendants make a point about the trustee's 17 allegations of red flags. But these allegations also serve 18 to support the trustee's allegation of actual knowledge. 19 The trustee does not list red flags in such a way that has 20 been found in other cases to be insufficient to plead actual 21 knowledge or willful blindness. The complaint alleges 22 concrete examples of instances where the defendants 23 recognized these red flags and saw them for what they were; 24 evidence of trading that was impossible.</p> <p>25 And as noted, neither Mr. Dumbauld nor Mr. Cutler</p>	<p style="text-align: right;">Page 113</p> <p>1 confirmations. So it's different allegations for each. 2 There were instances where UBS AG was --</p> <p>3 THE COURT: I know there were. But I have read 4 every word of your complaint. And I want the answer to that 5 question.</p> <p>6 MS. USITALO: Which allegations we are alleging 7 that UBS SA had -- sorry, which UBS entity had which 8 knowledge?</p> <p>9 THE COURT: Exactly.</p> <p>10 MS. USITALO: Okay. So it is in -- UBS SA is the 11 one that identified out-of-range trade prices in the BLMIS 12 trade confirmations.</p> <p>13 THE COURT: I want to just say something right 14 now.</p> <p>15 MS. USITALO: Okay.</p> <p>16 THE COURT: Every time you use UBS, please be 17 specific.</p> <p>18 MS. USITALO: Will do, Your Honor. And I want to 19 then clarify to you when I am talking about that -- I had 20 made the statement that UBS noted Madoff strategy. That was 21 UBS AG.</p> <p>22 THE COURT: Okay.</p> <p>23 MS. USITALO: And actually lastly, Your Honor, I 24 was just going to make -- to note that Luxalpha, with 25 respect to the counterparties, reported to its auditors that</p>

Page 114	Page 116
<p>1 BLMIS' option counterparties were approved by UBS AG, even 2 though we know that could not be the case. 3 THE COURT: Explain that then. 4 MS. USITALO: Because there were no counterparties 5 to approve. 6 THE COURT: Oh, okay. 7 MS. USITALO: And, Your Honor, just in conclusion 8 with respect to actual knowledge, I think these allegations 9 that I've just been through taken together and viewed in the 10 light most favorable to the trustee satisfy the trustee's 11 burden of alleging actual knowledge and support the 12 trustee's ability to pursue claims to avoid the transfers 13 made to Luxalpha and Groupement beyond the two-year period. 14 And so I would like to finally just go and touch 15 on the arguments that the defendants have made with respect 16 to the trustee's allegations on the recovery under Section 17 550 of the subsequent transfers. And at this stage what the 18 trustee must do to move beyond the pleading stage and 19 recover subsequent transfers from the defendants is to 20 provide the defendants with a short and plain statement of 21 the claim showing that the pleader is entitled to relief. 22 And the trustee has done so by alleging throughout the 23 second amended complaint that these defendants who acted in 24 various capacities as service providers to Luxalpha and 25 Groupement received subsequent transfers of BLMIS customer</p>	<p>1 - UBS SA makes the argument that it tries to force the 2 trustee to perform a specific tracing exercise of linking 3 the initial transfers made to Luxalpha and then to UBS SA as 4 we saw with Mr. King on Mr. King's slide. But that is not 5 what is required at the pleading stage. 6 In the complaint, the trustee need only show the 7 relevant pathways through which transfers were received. 8 And the trustee has certainly done that both in describing 9 the various roles held by each, detailing timeframes, and 10 identifying amounts received as service provider fees, and 11 quite literally, as has been pointed to a few times today, 12 in Paragraph 340, which we provide a chart that draws out 13 the pathways of transfers from BLMIS and on to each of the 14 defendants -- would you like me to go through each one as 15 represented in the chart, okay -- Each of the defendants 16 that were made by Luxalpha and Groupement. 17 And it's correct, as the defendants have pointed 18 out, that the allegations in this complaint are different 19 from some of the cases that have been recently before Your 20 Honor to require subsequent transfers from Fairfield Sentry. 21 And there's a reason for that. In those cases, the trustee 22 received records from Fairfield Sentry's administrator, 23 Citco, which are the books and records of Fairfield Sentry 24 and which reflect the payments into and out of Fairfield 25 Sentry.</p>
Page 115	Page 117
<p>1 property as service provider fees. 2 THE COURT: Again, you're lumping them all 3 together, correct? You're not giving me which UBS we're 4 dealing with. 5 MS. USITALO: In this instance, Your Honor, we are 6 alleging that each one of the UBS entities -- so that would 7 be UBS AG, UBS SA, UBS FSL, and UBS TPM all received fees as 8 service providers to Luxalpha and Groupement. And I will 9 try -- I apologize -- 10 THE COURT: Make sure the record is clear. 11 MS. USITALO: Okay. As I believe Mr. Paccione 12 said earlier, there's really no dispute here that a hundred 13 percent of Groupement and Luxalpha's assets were invested 14 with BLMIS and Luxalpha also in its answer admits this and 15 admits that all of the UBS SA, UBS AG, UBS SFSL, and UBS TPM 16 and all of the Access defendants as the trustee has defined 17 them, AP Lux -- sorry, I have them all right here -- AIA 18 Limited, AIA -- I want to -- AIA LLC, Access International 19 Advisors Limited, and Patrick Littaye, Mr. Villehuchet, and 20 Mr. Dumbauld all received fees as directors and service 21 providers. 22 And what the Defendants are arguing here is that 23 the trustee has not linked the transfers from Luxalpha to 24 these defendants as originating as BLMIS customer property. 25 Each defendant has disputed this. And UBS makes arguments -</p>	<p>1 We don't have that here. We don't have a 2 production of all of the books and records of Luxalpha and 3 Groupement. And yes, the trustee has received some 4 productions. And in those, there were audited financial 5 statements, invoices, and fee agreements. And it's from 6 those documents that the trustee was able to make the 7 allegations he did concerning the subsequent transfers. But 8 those documents don't provide the details and they don't 9 provide the complete picture. 10 And as Your Honor has recently noted in the 11 decision in Picard v. Mayer, the trustee has made his 12 allegations here as an outsider to these transactions. And 13 in some cases, these transactions are several layers deep. 14 And as Your Honor also recently held in Picard v. First Gulf 15 -- and I'll quote from the decision, "In order to determine 16 how Fairfield Sentry spent the billions of dollars it 17 received from BLMIS, this court would need to review 18 financial documents in order to trace the monies to all of 19 Fairfield Sentry's principals, insiders, creditors, and 20 customers. Undoubtedly, the court will trace and calculate 21 how Fairfield Sentry spent its BLMIS funds at a later stage 22 of litigation. At this stage, the trustee need only assert 23 allegations that make it seem plausible that defendant 24 received BLMIS monies." And these are the very 25 circumstances that we have here with Luxalpha and</p>

<p style="text-align: right;">Page 118</p> <p>1 Groupement.</p> <p>2 It is not a case, like the defendants argue in</p> <p>3 Picard v. Shapiro. In that case, there were allegations</p> <p>4 where the trustee made on information and believe that the</p> <p>5 BLMIS accounts were funded by subsequent transfers without</p> <p>6 more. And there, the court found that the trustee didn't</p> <p>7 give enough information to make the plausible inference that</p> <p>8 these funds were BLMIS customer property. But that's not</p> <p>9 the case here, where the trustee has alleged the involvement</p> <p>10 of all of the service providers in Luxalpha and Groupement</p> <p>11 and that all of the service providers were paid fees as</p> <p>12 service providers of Luxalpha and Groupement. And as we've</p> <p>13 previously noted, Luxalpha and Groupement's assets were</p> <p>14 invested with BLMIS. It was their only business and thus</p> <p>15 the plausible inference can be made that these subsequent</p> <p>16 transfers were BLMIS customer property.</p> <p>17 And I know we got in earlier to the specific</p> <p>18 allegations about UBS AG, and I pointed Your Honor to those</p> <p>19 particular allegations. And I believe in response, Mr. King</p> <p>20 said that this may not even amount to the Rule 8 pleading</p> <p>21 standard. And that's not the case. And we look to Picard</p> <p>22 v. Chase. And in that case, the court found that the</p> <p>23 trustee's complaint met the Rule 8 standard by adequately</p> <p>24 apprising the defendants there of the subsequent transfers</p> <p>25 at issue where the complaint set out the initial transfers</p>	<p style="text-align: right;">Page 120</p> <p>1 THE COURT: Thank you. Mr. King, I see that you</p> <p>2 are off mute, so do you want to rebut?</p> <p>3 MR. KING: Yeah. The hour is late and I will be</p> <p>4 short, Your Honor. Because --</p> <p>5 THE COURT: Where are you? It's still pretty</p> <p>6 early here.</p> <p>7 MR. KING: Fair enough. I'm happy to go on and</p> <p>8 on, but I don't think the 69 other people on this Zoom would</p> <p>9 appreciate that. So I will be very quick.</p> <p>10 First thing. On the issue of actual knowledge.</p> <p>11 The one thing you didn't hear Ms. Usitalo speak about was</p> <p>12 the standard of what one needs to show; a high level of</p> <p>13 certainty and an absence of substantial doubt. Everything</p> <p>14 she said about knowing about impossibility of returns and</p> <p>15 trading outside the daily close and inability to identify</p> <p>16 counterparties was alleged in the Merkin case and the judge</p> <p>17 there held that's not good enough. At most it was willful</p> <p>18 blindness. He did find willful blindness, meaning a strong</p> <p>19 suspicion but at least some doubt. But he held that did not</p> <p>20 constitute, even with all inferences in the favor of the</p> <p>21 plaintiff -- the trustee here, same plaintiff -- an actual</p> <p>22 knowledge that no securities were being traded.</p> <p>23 I urge Your Honor to read the Merkin case, 515</p> <p>24 B.R. 117. And you'll see that the allegations --</p> <p>25 THE COURT: (indiscernible) I haven't read them</p>
<p style="text-align: right;">Page 119</p> <p>1 in Exhibit B to the complaint and then alleged, and this is</p> <p>2 a quote, that "some or all of these transfers were</p> <p>3 subsequently transferred to defendant Chase and/or other</p> <p>4 defendants in the form of commissions or fees, transfers</p> <p>5 from one account to another, or another means." And that</p> <p>6 was sufficient to apprise the defendants.</p> <p>7 And as Your Honor -- and Your Honor cited to</p> <p>8 Picard v. Chase in Picard v. Mayer. And there was a similar</p> <p>9 set of circumstances where there were various levels of</p> <p>10 transfers. And there Your Honor pointed to the quote from</p> <p>11 Picard v. Chase where the moving defendants are a group of</p> <p>12 interrelated individuals and entities and whether they</p> <p>13 additionally received subsequent transfers of BLMIS funds</p> <p>14 from one another is a question to which they and they alone</p> <p>15 have the requisite information to respond.</p> <p>16 And we have not received -- we do not have yet the</p> <p>17 documents that we would need to identify these specific</p> <p>18 subsequent transfers. We do not have the books and records</p> <p>19 from Luxalpha or Groupement or from the Access entities. We</p> <p>20 don't have bank statements from the defendants. And these</p> <p>21 are the documents that would assist the trustee and the</p> <p>22 Court with figuring out how Luxalpha and Groupement paid</p> <p>23 their agents and service providers.</p> <p>24 And unless Your Honor has any questions, I have</p> <p>25 nothing further.</p>	<p style="text-align: right;">Page 121</p> <p>1 all already</p> <p>2 MR. KING: I would urge you to reread the Merkin</p> <p>3 case, Your Honor. Because the allegations there are</p> <p>4 equivalent in many respects and go beyond anything that's in</p> <p>5 the current complaint. And it just doesn't satisfy actual</p> <p>6 knowledge.</p> <p>7 On the subject of the subsequent transfers, I am</p> <p>8 not demanding dollar-for-dollar tracing. I get that that is</p> <p>9 an issue for the most part to be decided later. But on the</p> <p>10 face of the complaint, it is impossible to have made \$32</p> <p>11 million in subsequent transfers when you've only received</p> <p>12 \$16 million in initial transfers. They know the initial</p> <p>13 transfers are only \$16 million through 2006, and yet they</p> <p>14 are claiming subsequent transfers through 2006 of \$32</p> <p>15 million. That's not plausible. That's not possible. Math</p> <p>16 doesn't allow that to happen. And I have heard no</p> <p>17 explanation --</p> <p>18 THE COURT: Let's just not be there yet, Mr. King.</p> <p>19 I've heard your argument.</p> <p>20 MR. KING: Lastly, I've heard no explanation as to</p> <p>21 what happened to that subparagraph D of the proposed second</p> <p>22 amended complaint that was filed five -- longer than that</p> <p>23 now, 2015, where there was an actual allegation about monies</p> <p>24 received by UBS AG. It's not in the current complaint.</p> <p>25 It's gone. And there is an allegation as to every other</p>

<p style="text-align: right;">Page 122</p> <p>1 defendant. It is not enough just to parrot the language of 2 550 and say you got something, I am entitled to recover it. 3 You need some factual allegation under the Supreme Court 4 standards. That's all, Your Honor. 5 THE COURT: Okay. Anyone else wish to be heard? 6 MR. KNUTS: Your Honor, just briefly on 7 behalf of Mr. Dumbauld. 8 THE COURT: Sure. 9 MR. KNUTS: Counsel for the trustee spent part of 10 her time talking about how Mr. Dumbauld acted in good faith 11 and presented information that they are now using to try to 12 hold the Access defendants liable. It seems to me that you 13 cannot hold an employee liable for a return of compensation 14 just by attending a meeting, just by reporting accurately 15 the information that he developed to the people who could 16 make decisions at the company. And to hold otherwise, to 17 say that somehow there's an allegation -- 18 THE COURT: That's called an affirmative defense. 19 Okay. 20 MR. KNUTS: No, the Geltzer case said it was not - 21 - in this context that it was not an affirmative defense. 22 So I would just ask Your Honor to see whether you agree with 23 that or not. Thank you. 24 THE COURT: Thank you. Anyone else wish to be 25 heard?</p>	<p style="text-align: right;">Page 124</p> <p>1 just be patient with me. 2 Okay, I am now ready. This is -- Mr. Boccuzzi -- 3 how do you? 4 MR. BOCCUZZI: Boccuzzi. Boccuzzi, Your Honor. 5 THE COURT: This is your motion to dismiss. 6 MR. BOCCUZZI: Yes. Thank you, Your Honor. One 7 thing. The docket number you said at the beginning, I'm not 8 sure -- 9 THE COURT: I said adversary proceeding 10-3545. 10 Is that incorrect? 11 MR. BOCCUZZI: 10-05345. 12 THE COURT: Yeah. What happens is I left the zero 13 off. Sometimes people leave the zero off. 14 MR. BOCCUZZI: Okay. And then I just misheard the 15 numbers. Apologies. 16 THE COURT: Okay. I apologize. And I am glad you 17 -- I am so glad you clarified it for the record. So this is 18 Adversary Proceeding 10-05345. 19 MR. BOCCUZZI: Thank you, Your Honor. 20 THE COURT: Thank you. 21 MR. BOCCUZZI: This is the motion to dismiss 22 brought by the -- I'll call them the, when I refer to all 23 three of them, the Citi defendants. But the complaint here 24 is really two sets of claims; one by the trustee against 25 Citigroup Global Markets Limited, and I'll try to just refer</p>
<p style="text-align: right;">Page 123</p> <p>1 Thank you, everyone. Interesting arguments. 2 Interesting. We will obviously get a written opinion. Or 3 two or three. I don't know how I'll put them together. 4 Okay, everyone. Have a great day. Be safe. Enjoy the 5 weather. Bye. 6 (Recess) 7 THE COURT: Apologize, everyone. I went to 8 chambers by basically sounding like I dismissed everyone. 9 And I was reminded that I did not dismiss everyone, that I 10 could go to chambers and talk, but I have other matters on. 11 So I apologize profusely to everyone that I did it in the 12 way that I did it. And chambers told me to leave them alone 13 and come back to you all. So, very good. Give me one 14 moment to get to where I am. 15 We are at 10-05358, Picard v. Citibank. And that 16 is -- yes, very good. 17 State your name and affiliation. 18 MR. CHARLEMAGNE: Good afternoon, Your Honor. 19 Chardaie Charlemagne on behalf of the trustee. 20 Good afternoon, Your Honor. Carmine Boccuzzi, 21 Cleary Gottlieb on behalf of Citigroup Global Markets 22 Limited, Citibank NA, and Citicorp North America Inc. 23 THE COURT: Very good. Just give me two minutes, 24 please. Because the last argument I had myself all 25 scattered with that complaint everywhere. So if you would</p>	<p style="text-align: right;">Page 125</p> <p>1 to them as Citigroup Global Markets, and the other is a 2 claim against Citibank and Citicorp. And they are both 3 claims under Bankruptcy Code 550 as purported secondary 4 transferees. I think it might make sense just for purposes 5 of dividing it up to start with the claim against Citigroup 6 Global Markets. That claim arises out of two purported 7 secondary transfers totaling \$100 million that allegedly 8 went from Madoff to the Fairfield Sentry fund and then on to 9 Citi Group Global Markets. The trustee originally -- 10 THE COURT: Excuse me for interrupting. 11 MR. BOCCUZZI: Yes. 12 THE COURT: And that is -- you are saying it was a 13 swap, correct? 14 MR. BOCCUZZI: Yes, that involved a swap. I was 15 going to give some of that background, Your Honor, just to 16 set the table as it were. And that was exactly my next 17 point. The claim was originally \$130 million. That was 18 comprised of three different transfers, one in 2005 and then 19 the ones that we're here about today in 2008. But the 20 district court in 2013 -- and that's at 505 B.R. 135 -- 21 dismissed a \$30 million transfer as a result of the 22 application of the 546(g) safe harbor. And that's the safe 23 harbor that protects or covers transfers in connection with 24 a swap agreement. And the swap agreement in this case -- 25 and it's discussed in that opinion -- is one that was</p>

<p style="text-align: right;">Page 126</p> <p>1 between Citigroup Global Markets and a fund that was named 2 Auriga. And what Auriga wanted via the swap was to have 3 leveraged exposure to the Fairfield fund. So the swap 4 agreement provided that Citigroup Global Markets would pay 5 or take money from Auriga -- from Auriga, yes, based on the 6 performance of the Fairfield Sentry fund. Citigroup itself 7 didn't want to have direct market exposure to the Fairfield 8 fund. That's not the point of these transactions. It 9 wanted to hedge that. So what it did was it bought shares 10 in the corresponding amount of the swap. And so if Auriga 11 wanted a return or money out of its swap, it would notify 12 Citigroup Global Markets. Citigroup Global Markets would 13 redeem the corresponding appropriate amount of shares from 14 the Fairfield fund and pay that over to Auriga. So it was a 15 very mechanical sort of process. Auriga says let's reduce 16 the size of the swap, Citibank does the calculation -- 17 Citigroup Global Markets, excuse me -- and then redeems out. 18 And two such redemptions happened in 2008, and they are the 19 subject of the motion today and the current amended 20 complaint from the trustee. One was in April of 2008 for 21 \$60 million and one was in November of 2008 for \$40 million. 22 And our motion as to these claims -- I think I'll 23 just discuss the grounds of that and then we can move on to 24 the Citibank side of the complaint -- says that the 25 complaint as to Citigroup Global Markets should be dismissed</p>	<p style="text-align: right;">Page 128</p> <p>1 April 2008 transfer. But allegedly starting with Fairfield 2 -- from Madoff to Fairfield. And of course Fairfield was a 3 net loser. So we're not talking about illegitimate false 4 profits. 5 Your Honor in the Goodman case earlier this year 6 said of course there's no reason not to apply the Ponzi 7 scheme presumption in the context of a recipient of false 8 profits, fictitious profits. We don't have that here in 9 this case. We're dealing with the return of principal. And 10 so what we have then is at most a preference among creditors 11 as opposed to the squirreling away of assets to get them out 12 of the hands of creditors and keep them under some sort of 13 indirect or other dominion or control of the original 14 debtor. 15 And so we would say if you then look back to the 16 sort of usual badges of fraud analysis and you look and you 17 see that the transfers to Fairfield did not remain under any 18 sort of control with Madoff, there's no argument given that 19 it was just a return of principal, that there was inadequate 20 consideration. And so you just have a situation where, 21 again, they need to plead actual intent to hinder, delay, 22 defraud as to these transfers. And we just don't think that 23 the usual resort to the Ponzi scheme presumption should do 24 the trick. 25 And then as to the tracing point, our arguments as</p>
<p style="text-align: right;">Page 127</p> <p>1 in full. And what we're doing is basing it on the caselaw 2 and the reasoning set out in the concurrent by Judge Menashi 3 in the Citibank decision that went to the Second Circuit 4 where he questioned the underpinnings of the so-called Ponzi 5 scheme presumption -- 6 THE COURT: But you're arguing a concurrence to 7 me, not the majority ruling? 8 MR. BOCCUZZI: Right. The majority acknowledges 9 that no one was challenging the Ponzi scheme presumption. 10 It didn't bless or accept the Ponzi scheme presumption. And 11 so, yes, it is a concurrence. So the concurrence cites, and 12 we cite in our brief, other cases that point out some of the 13 issues with the Ponzi scheme presumption. And an important 14 one is that there is of course no mention of the Ponzi 15 scheme presumption in the Bankruptcy Code. The Bankruptcy 16 Code trains on in Section 548 as well as the other avoidance 17 provisions the transfer itself; what was the intent? And 18 now we're talking about actual intent to hinder, delay, 19 defraud of the transfer at issue, and it doesn't look to 20 broader issues related to how the debtor was run or managed 21 or if it was a Ponzi scheme. The Bankruptcy Code doesn't 22 give out special rules for fraudulent conveyances in the 23 context of a Ponzi scheme. And here of course we are 24 dealing with primary transfers and alleged primary 25 transfers, because we also raise a tracing point as to the</p>	<p style="text-align: right;">Page 129</p> <p>1 to tracing would not dispose of the entire case against 2 Citigroup Global Markets. Here we are really talking about 3 the \$60 million transfer in April of 2008 from Fairfield to 4 Citi Global Markets. But again, if we look at the complaint 5 and we look at things that I believe Your Honor could take 6 judicial notice of, you see that the \$60 million that came 7 in April of 2008. There was no recent transfer by Madoff to 8 Fairfield in that amount. You have to go back more than 9 three months to mid-January of 2008. At that time, there is 10 a transfer of \$70 million. But in between that transfer and 11 the transfer to Citi from Fairfield, you have at least \$141 12 million in other transfers going out from Fairfield. And we 13 just think given that it's just not plausible to say based 14 on that math that you can say the \$60 million -- or there's 15 a plausible case here that the \$60 million was in fact money 16 that came from Madoff as opposed to other subscribers into 17 the Fairfield funds. 18 So those are the two arguments that we think 19 warrant complete or at least partial dismissal of the claim 20 against CGML. And I'm happy either to take any questions, 21 Your Honor, or move on to the Citibank side unless you want 22 to go one at a time and have the trustee respond on 23 Citigroup Global Markets. 24 THE COURT: Go to the Citibank argument. 25 MR. BOCCUZZI: Okay. On the Citibank side, what</p>

<p style="text-align: right;">Page 130</p> <p>1 we are dealing with here is a loan, a loan made in 2005 by 2 Citibank to what became known as the Prime Fund. That was 3 one of several funds managed by the Tremont Group and that 4 invested with Madoff. 5 In March of 2008, Tremonte and Prime, finding an 6 alternative lender, terminated that loan. So they 7 terminated the loan, and they paid back the \$300 million. 8 In the period of the life of the loan, between June or so of 9 2005 and March 2008, Citibank received regularly scheduled 10 interest payments in the amount of around I think \$40 11 million. And the trustee is seeking to claw back under 12 550(a) those interest payments as well as the \$300 million 13 repayment. 14 We think that this claim should be dismissed. And 15 as to this -- this is point two in our brief -- we think the 16 Court can dismiss it because the sort of (indiscernible) 17 plus ultra fraudulent conveyance is depletion of the estate. 18 And if you look at what happened here -- and that's both in 19 the complaint that's against us, the incorporated by 20 reference complaint against Tremont, as well as a related 21 complaint involving ABN AMRO is that that repayment to us, 22 again, which was driven by Tremont and not Citi, was part of 23 one integrated transaction where \$300 million came out of 24 the Madoff estate, but then a corresponding greater amount 25 went right back into the Madoff estate through another</p>	<p style="text-align: right;">Page 132</p> <p>1 2007 when there's about \$18 million in interest flowing to 2 Citi, you don't see any initial transfers going on from the 3 debtor to Prime. So we think, again, in the absence of 4 that, there's just no plausible allegation of tracing. And 5 at the very least if Your Honor doesn't dismiss the entire 6 claim, those claims as to interest payments should be 7 dismissed for failure to plausibly allege an initial 8 transfer that passed on to us. 9 THE COURT: Very good. Ms. Charlemagne? 10 MS. CHARLEMAGNE: Thanks, Your Honor. Again, 11 Chardaie Charlamagne with Baker Hostetler on behalf of the 12 trustee. 13 Your Honor, defendants advance three main 14 arguments in their motion to dismiss. First, they argue 15 that the trustee has not alleged that BLMIS made the initial 16 transfers at issue here with the requisite intent to defraud 17 under Section 548(a)(1)(A) because, according to them, the 18 Ponzi scheme presumption should not establish such intent. 19 Second, they argue that there was no depletion of 20 the estate because someone else later invested other funds 21 in the Ponzi scheme through a separate account. 22 And third, they argue that some of the subsequent 23 transfers they received did not contain stolen customer 24 property. 25 These arguments are without merit. The trustee</p>
<p style="text-align: right;">Page 131</p> <p>1 Tremont-managed fund. 2 And so our position is that -- and we cite cases 3 to this effect and I would refer Your Honor to the Ivy case 4 involving the entities that were buying steel. When you 5 have one integrated transaction like that where the -- at 6 the end of the day the debtor is left not depleted and in 7 fact having more money than the -- it's really not the 8 proper subject of a fraudulent conveyance/550 claim because 9 you don't have that initial depletion of the estate. 10 Again, the caselaw that we cite, the Gredd case 11 and other cases focuses on is their harm to the debtor that 12 resulted from the transfer. And given these facts that are 13 in the complaint and are judicially noticeable by Your 14 Honor, we think they're not. 15 And there's also -- that argument we think should 16 dispose of the entirety of the claim. There's also a 17 tracing argument again as with the portion of the claim 18 against Citigroup Global Markets. And in the context here, 19 we are talking about the attempt to claw back the interest 20 payments that were made to Citibank over the life of the 21 loan. 22 So, for example, there during the last 12 months 23 of 2005 when the allegation is that Citi received about \$4.4 24 million in interest from the Prime fund, there were no 25 transfers in that period from Madoff to Prime. And again in</p>	<p style="text-align: right;">Page 133</p> <p>1 has alleged that the specific transfers at issue here were 2 made with actual intent to hinder, delay, or defraud as 3 required under Section 548(a)(1)(A) both by way of the Ponzi 4 scheme presumption and through badges of fraud. This and 5 other courts have repeatedly upheld the Ponzi scheme 6 presumption, found the same allegations made here sufficient 7 to satisfy Section 548(a)(1)(A), and repeatedly rejected 8 defendant's precise argument regarding customer property. 9 Defendants cite no binding precedent or authority in support 10 of their suggestion that the Court set aside its rulings in 11 this liquidation or well-established principles of law such 12 as the applicability of the Ponzi scheme presumption to a 13 Section 548(a)(1)(A) claim. 14 Instead, defendants grasps onto dicta and a 15 concurrence by Judge Menashi in the Citibank appeal arguing 16 without supporting authority that the Ponzi scheme 17 presumption should be set aside. This reliance on Judge 18 Menashi's concurrence is misplaced as I will discuss 19 shortly. 20 Defendant's argument provide no legal basis upon 21 which this Court may dismiss the trustee's claims based on 22 the facts in this case. I will address each of defendant's 23 argument in turn. 24 I would like to first take a few moments to talk 25 about why the trustee's allegations satisfies Section</p>

<p style="text-align: right;">Page 134</p> <p>1 548(a)(1)(A). Section 548(a)(1)(A) allows for the avoidance 2 of transfers made with actual intent to hinder, delay, or 3 defraud creditors. Defendants argue that the trustee has 4 not alleged facts relating to the specific initial transfers 5 he seeks to avoid here. Defendants are wrong. 6 The trustee has alleged that BLMIS made the 7 specific transfers at issue here to Prime Fund and Sentry 8 with actual intent to hinder, delay, or defraud its 9 creditors. Specifically, the trustee alleges the following 10 facts. 11 The trustee alleges that BLMIS' IA business 12 operated as a fraud and Ponzi. This is alleged at 13 Paragraphs 15, 62, and 66 of the complaint. The trustee 14 alleges that BLMIS did not purchase or sell securities for 15 its IA business customers. This is alleged at Paragraph 16 16 of the complaint. Instead, BLMIS created false, backdated 17 trades for its IA business customer accounts beginning in 18 the early 1970s. This is alleged at Paragraph 17 of the 19 complaint. Thus, the IA business had no legitimate business 20 operations and produced no profits or earnings. This is 21 alleged at Paragraphs 62 to 65 of the complaint. And the 22 trustee also alleges that BLMIS comingled all of its 23 customer funds into a single account. This account was used 24 to distribute funds to other customers, to make 25 distributions and payments for other customers, to benefit</p>	<p style="text-align: right;">Page 136</p> <p>1 business customers. This is alleged at Paragraphs 3 through 2 4, 44 through 45, 164, and 177 of the complaint. And the 3 trustee alleges that those transfers to Prime Fund and 4 Sentry were not comprised of proceeds of securities 5 transactions. Rather, the initial transfers to Sentry and 6 Prime Fund which are at issue here were comprised of 7 customer property stolen from other customers. This is 8 alleged at Paragraphs 1, 67, 164, and 177 of the complaint. 9 These allegations are sufficient to state a claim under 10 Section 548(a)(1)(A) with respect to the initial transfers 11 at issue here both by way of the Ponzi scheme presumption 12 and under the badges of fraud test. 13 I would like to now address Defendant's arguments 14 regarding the Ponzi scheme presumption. This Court and 15 others inside and outside of this district have all held 16 that allegations such as those just mentioned are sufficient 17 to trigger the Ponzi scheme presumption. As an initial 18 matter, defendant's argument that the Ponzi scheme 19 presumption is inconsistent with Section 548(a)(1)(A) is 20 without support or authority. District courts within this 21 circuit have unanimously applied the Ponzi scheme 22 presumption as a matter of law to establish a debtor's 23 fraudulent intent as required under Section 548(a)(1)(A). 24 Every circuit court to consider the issue has similarly 25 applied the Ponzi scheme presumption as a matter of law. In</p>
<p style="text-align: right;">Page 135</p> <p>1 Madoff and his family personally, and to prop up Madoff's 2 proprietary trading business. This is alleged at Paragraph 3 67 of the complaint. 4 In other words, BLMIS robbed Peter to pay Paul 5 using funds received from one set of customers to pay other 6 customers with no legitimate business operations or trading 7 taking place. 8 These allegations plausibly establish that BLMIS 9 operated a Ponzi scheme through its IA business. The 10 trustee also alleges facts that plausibly establish that 11 BLMIS made the initial transfers at issue here to Sentry and 12 Prime Fund in furtherance of that Ponzi scheme. 13 Specifically the trustee alleges the following facts. 14 The trustee alleges that Sentry and Prime Fund 15 were IA business customers who invested substantially all of 16 their assets with BLMIS. This is alleged at Paragraphs 5, 17 53, 172, and 181 of the complaint. The trustee alleges that 18 BLMIS comingled all funds it received from Prime Fund and 19 Sentry with other customer funds in a single BLMIS account 20 which it used to maintain the Ponzi. The comingled funds 21 were not used to trade securities, but were used to make 22 distributions or payments to other customers. Again, this 23 is alleged at Paragraph 67 of the complaint. 24 The trustee alleges that the initial transfers at 25 issue here were made by BLMIS to Sentry and Prime Fund as IA</p>	<p style="text-align: right;">Page 137</p> <p>1 fact, defendants were unable to cite a single case anywhere 2 in this nation holding that the Ponzi scheme presumption is 3 inconsistent with the plain language of Section 4 548(a)(1)(A). Instead, defendants base their argument that 5 the Ponzi scheme presumption is overbroad and inconsistent 6 with the text of Section 548(a)(1)(A) on dicta and a 7 concurring opinion. But as the district court recently 8 held, notwithstanding Judge Menashi's concurrence, the Ponzi 9 scheme presumption remains the law of the circuit. This is 10 in Sage Realty at 2022 WL 1125643. 11 Defendants take issue with the Ponzi scheme 12 presumption as a means of establishing fraudulent intent, 13 arguing that it is overbroad, inconsistent with the plain 14 langue of 548(a)(1)(A), and that the presumption is not in 15 the Bankruptcy Code. 16 First, the Ponzi scheme presumption is not 17 overbroad. Defendants argue that the presumption is 18 overbroad because it allows the trustee to establish 19 fraudulent intent for any and every transfer BLMIS made. 20 But as just discussed and as set forth in our papers, the 21 Ponzi scheme presumption establishes fraudulent intent for 22 the specific initial transfers at issue here because those 23 transfers were made in furtherance of BLMIS' Ponzi scheme. 24 This is because with a Ponzi scheme, the investor pool is a 25 limited resource that will eventually run dry. And as is</p>

<p style="text-align: right;">Page 138</p> <p>1 the case with all Ponzi schemes, Madoff, the Ponzi scheme 2 operator, must have known all along from the very nature of 3 his activities that investors at the end of the line would 4 lose their money. Thus, the only possible inference is that 5 the debtor here, Madoff, had the intent to hinder, delay, or 6 defraud future creditors because he must have known that 7 future creditors would not be paid.</p> <p>8 Second, defendants argue that the Ponzi scheme 9 presumption is inconsistent with the plain language of 10 Section 548(a)(1)(A) simply because the presumption is not 11 explicitly defined in the Bankruptcy Code.</p> <p>12 However, judicially-created presumptions are 13 regularly implemented by trial and appellate courts. 14 Indeed, presumptions typically serve to assist courts in 15 managing circumstances in which direct proof for one reason 16 or another is rendered difficult. And courts regularly 17 accept judicially-created presumptions arising out of 18 considerations of fairness, public policy, probability, as 19 well as judicial economy.</p> <p>20 In Basic, Inc. v. Levinson, 485 U.S. 224, the 21 Supreme Court upheld a judicially-created presumption of 22 reliance based on the fraud on the market theory in a 23 securities case and specifically held that the presumption 24 was supported by common sense and probability.</p> <p>25 Thus, in direct contradiction to Defendant's</p>	<p style="text-align: right;">Page 140</p> <p>1 establishes a lack of reasonably equivalent value as an 2 element of a constructive fraudulent conveyance claim. 3 Reasonably equivalent value is not an element of Section 4 548(a)(1)(A).</p> <p>5 Defendants' reliance on Sharpe is also misplaced. 6 The Second Circuit has held Sharpe inapplicable to this 7 civil proceeding. Sharpe involved a loan to the debtor and 8 no Ponzi scheme. And Sharpe actually supports the trustee's 9 position here that the Ponzi scheme presumption is 10 appropriate because, unlike the initial transfer in Sharpe, 11 BLMIS made the initial transfers here in furtherance of its 12 fraud.</p> <p>13 Moreover, Sharpe didn't dismiss an actual fraud 14 claim because it would result in an impermissible choice 15 between creditors that should be considered a preference. 16 It dismissed that claim because it found that the initial 17 transfer was not made in furtherance to or in connection 18 with the debtor's fraud.</p> <p>19 Even if the court were to find for the first time 20 in this district that the Ponzi scheme presumption is 21 inapplicable to a Section 548(a)(1)(A) claim, contrary to 22 defendant's contentions, the trustee alleges multiple badges 23 of fraud which are sufficient to support a finding of 24 fraudulent intent with respect to the initial transfers at 25 issue here. Specifically the trustee alleges the following.</p>
<p style="text-align: right;">Page 139</p> <p>1 arguments, the Ponzi scheme presumption is not overbroad, it 2 is not inconsistent with the plain language of Section 3 548(a)(1)(A). The presumption is well-founded and supported 4 by common sense and probability. Again, the only possible 5 inference here is that Madoff intended to hinder, delay, or 6 defraud future creditors because he must have known that 7 future creditors would not be paid by the very nature of the 8 Ponzi scheme he created. The Ponzi scheme presumption 9 presumes actual intent only where the transfers were made in 10 furtherance of the Ponzi scheme, as is the case with the 11 initial transfers at issue here.</p> <p>12 And as just mentioned, the trustee alleges with 13 particularity that Madoff operated a Ponzi and that the 14 initial transfers to Prime Fund and Sentry were made in 15 furtherance of that Ponzi scheme. This is sufficient to 16 allege fraudulent intent under the Ponzi scheme presumption.</p> <p>17 Almost all the cases cited by the defendants in 18 support of their argument to sidestep the Ponzi scheme 19 presumption are constructive fraud cases. And in the case 20 of Finn v. Alliance Bank, the court's ruling was based on 21 Minnesota state law which directly contradicts New York law 22 and is not binding in this district. Defendants' reliance 23 on other cases is similarly misplaced. Lustig v. Weiss, 24 (indiscernible), and In re Churchill Mortgage Investment 25 Corp. were cases that focused on whether the presumption</p>	<p style="text-align: right;">Page 141</p> <p>1 The trustee alleges that BLMIS' IA business was 2 not legitimate; it was a fraud and a Ponzi scheme. And that 3 is alleged at Paragraphs 15 through 17, 62, and 66.</p> <p>4 The trustee alleges that BLMIS concealed facts and 5 made false representations about the IA business. That is 6 alleged at Paragraphs 59 through 60, 64 through 65.</p> <p>7 The trustee also alleges that BLMIS comingled all 8 customer funds into a single account. This is alleged at 9 Paragraph 67. And the trustee alleges that BLMIS misused 10 investor funds and created false financial statements. This 11 is alleged at Paragraph 17, 59 through 60, and 64 through 12 65.</p> <p>13 These allegations have already been held to be 14 sufficient to support a badges of fraud theory of fraudulent 15 intent. This can be found in SIPC v. BLMIS, 528 F.Supp.3d 16 219 (2021). There, the court found that badges of fraud 17 such as those just discussed were sufficient to establish 18 fraudulent intent under a badges of fraud theory.</p> <p>19 In conclusion, the trustee adequately alleges 20 fraudulent intent for the specific transfers at issue here 21 under either the Ponzi scheme presumption or a badges of 22 fraud theory.</p> <p>23 Next I would like to address defendant's depletion 24 of the estate arguments.</p> <p>25 Defendants challenge the trustee's power to avoid</p>

<p style="text-align: right;">Page 142</p> <p>1 a \$301 million transfer from Prime Fund to the defendants. 2 Their reasoning is that they were somehow parties to an 3 integrated transaction that did not deplete the estate. 4 This argument has no legal or factual basis. Before I 5 discuss the lack of any factual basis for defendant's 6 argument, I would like to discuss the fatal flaws in 7 defendant's legal argument. 8 Even if defendants were able to establish that 9 they reinvested the customer property they received into 10 another feeder fund, which they cannot, their argument would 11 still fail because the bankruptcy court has already rejected 12 defendant's reasoning in Picard v. Lustig at 568 B.R. 481. 13 This is not the first time this argument is before the 14 court. This is not even the first time this argument is 15 before the court in this very case. 16 Although the bankruptcy court did not decide this 17 issue the last time defendants raised it, at the hearing on 18 a previous motion, the bankruptcy court questioned why 19 defendant's depletion of the estate argument was not 20 foreclosed by the bankruptcy court's decision in Picard v. 21 Lustig. Defendants were unable to distinguish Lustig then 22 as can be seen in the hearing transcript, and they are not 23 able to distinguish is not, nor do they try to in their 24 motion papers. 25 Defendants did not even attempt to rebut the</p>	<p style="text-align: right;">Page 144</p> <p>1 Market account. 2 Additionally, as noted in Lustig, Defendants' 3 proposition flies in the face of established Second Circuit 4 law on net equity in this case. In the Second Circuit's 5 decision upholding the trustee's net investment method of 6 determining net equity, the court held that each customer's 7 net equity should be calculated by crediting the amount of 8 cash deposited by the customer into his or her BLMIS account 9 less any amounts withdrawn from it. 10 Here, the deposits and withdrawals in Broad 11 Market's account form the basis of this account's net equity 12 just as the deposits and withdrawals in Prime Fund's BLMIS 13 account form the basis of this account's net equity. By 14 trying to combine transfers in unrelated transactions, 15 Defendants are requesting a second round of credits for the 16 deposits in Broad Market's account. This result would be 17 inequitable to all BLMIS customers, but -- 18 THE COURT: Ms. Charlemagne, I'm sorry to 19 interrupt you, but I've got to interrupt you. Because I 20 don't remember this issue being addressed, and you said it 21 was. In Lustig? 22 MS. CHARLEMAGNE: It wasn't -- yes, in Lustig the 23 issue, the rationale was addressed in Lustig. So in Lustig, 24 they were also trying to do a similar thing. They were 25 trying to offset fictitious profits in one BLMIS account</p>
<p style="text-align: right;">Page 143</p> <p>1 trustee's opposition brief concerning Lustig, and the Lustig 2 defendants were actually better situated to make this 3 argument because, unlike Citibank, the Lustig defendants 4 actually reinvested funds back into the BLMIS estate via a 5 different customer account. The Lustig defendants withdrew 6 fictitious profits from one BLMIS customer account and later 7 reinvested those funds into another BLMIS account through a 8 feeder fund. 9 In Lustig, the court declined to offset fictitious 10 profits in one BLMIS account against losses in a separate 11 BLMIS account, reasoning that the reinvestment is still a 12 separate transaction governed by whatever account agreements 13 the funds had with BLMIS. 14 This is the same situation here. Defendants are 15 trying to offset the transfers they received from Prime 16 Fund, a net winner, against Broad Market, a net loser. 17 Moreover, if the court found in Lustig that the same party 18 who took its money out and reinvested it back into Madoff 19 was unable to offset these transfers against each other, why 20 would Citibank be allowed to get a credit for another 21 party's investment? They should not. 22 Citibank and Citicorp are attempting to collapse 23 transactions across accounts and co-op this value. The 24 deposits that Citibank is attempting to co-op for themselves 25 have already been applied to the deposits in the Broad</p>	<p style="text-align: right;">Page 145</p> <p>1 against losses in a separate -- 2 THE COURT: But did you have another case rather 3 than Lustig? 4 MS. CHARLEMAGNE: No. Lustig was the only one I 5 referenced. I did reference that the Defendants had made 6 this very argument in this case before and even -- 7 THE COURT: Okay. I did hear that, but somehow I 8 thought I was missing a cite. 9 MS. CHARLEMAGNE: No. 10 THE COURT: I heard Lustig and I heard maybe 11 argument before. Okay. Thank you. You clarified my brain. 12 Okay. 13 MS. CHARLEMAGNE: All right. So I am going back 14 to talking about the defendants and the net equity decision. 15 THE COURT: Okay. 16 MS. CHARLEMAGNE: So here the deposits and 17 withdrawals in Broad Market's account form the basis of this 18 account's net equity just as the deposits in Prime Funds 19 form the basis of that account's net equity. By trying to 20 combine the transfers, the defendants are requesting a 21 second round of credits. And this would be inequitable to 22 all BLMIS customers. 23 Defendants also entirely missed the point the 24 trustee makes about how the net equity calculations affected 25 the Tremont settlement agreement. The trustee is not</p>

<p style="text-align: right;">Page 146</p> <p>1 arguing that Citibank is bound by the settlement. Rather, 2 the settlement accurately reflects the facts of the deposits 3 that defendants are now attempting to co-op for themselves. 4 Having discussed the legal deficiencies of 5 defendants arguments, I will now address why defendants' 6 argument has no factual basis. 7 Defendants are wrong on the law, but they are also 8 wrong on the facts. Defendants' arguments depends on this 9 Court exercising its equitable powers to collapse multiple, 10 unrelated transactions to find that there was an integrated 11 round trip transaction. There is no basis for this 12 argument. No funds went out and came back in from Citibank 13 or Prime Fund. They only came out. 14 As set forth in Exhibit E to the amended complaint 15 at ECF 214, Prime Fund did not return any of the \$475 16 million it withdrew from its BLMIS IA account on March 25th, 17 2008. In fact, Prime Fund did not make any deposits to its 18 BLMIS IA account after receiving the initial transfers that 19 Defendants' claim did not deplete the estate. 20 The facts make it clear that the \$301 million 21 received by defendants from Prime Fund is an interest of the 22 debtor and property that the trustee is permitted to avoid 23 and recover. 24 As background, the trustee's claims against 25 defendants arise from the receipt of subsequent transfers of</p>	<p style="text-align: right;">Page 148</p> <p>1 property that was made or incurred within one year before 2 the date of filing if the debtor made such a transfer with 3 actual intent to hinder, delay, or defraud. 4 Diminution or depletion of the estate arguments 5 are typically concerned with how one defines an interest of 6 the debtor. In other words, the issue discussed in Bear 7 Stearns was whether an interest of the debtor in property 8 referred only to property that would have been available for 9 the benefit of the debtor's creditors and/or property that 10 would have been part of the estate had it not been 11 transferred before the commencement of the bankruptcy 12 proceedings. 13 In Bear Stearns, the transfers sought by the 14 trustee were held to not be an interest of the debtor in 15 property because a federal law made it so that those funds 16 were never part of and could never be a part of the estate. 17 And thus, those funds were never available to satisfy any 18 obligations of the debtor. 19 Here, defendants cannot and do not argue that the 20 transfer at issue was not in interest of the debtor in 21 property because there is no question that the \$301 million 22 they received would have been available for the benefit of 23 the debtor's creditors and was property that would have been 24 part of the estate had it not been transferred before the 25 commencement of the bankruptcy proceeding. This fact alone</p>
<p style="text-align: right;">Page 147</p> <p>1 stolen customer property from Prime Fund, which held Account 2 Number 1C1260 at BLMIS. The facts of this transaction are 3 simple; defendants received \$301 million from Prime Fund. 4 This \$301 million transfer from Prime Fund to Citibank and 5 Citicorp never returned to BLMIS or the BLMIS estate. Had 6 Prime Fund not received the initial transfer of \$475 million 7 from BLMIS, it would have become part of the customer 8 property fund available to distribute pro rata to all 9 customers. This fact alone is sufficient to defeat 10 defendants depletion of the estate argument. 11 Indeed, in Bear Stearns v. Gredd, 275 B.R. 190, a 12 case heavily relied upon by the defendants, the court 13 concluded that Section 548(a)(1)(A) only permits at trustee 14 to avoid a transfer of an interest of the debtor and 15 property when but for the transfer such property interest 16 would have been available to at least one of the debtor's 17 creditors. This is precisely the case here. But for the 18 \$475 million initial transfer from BLMIS to Prime Fund, \$475 19 million, including the \$301 million subsequently transferred 20 to defendants from Prime Fund would have been available to 21 at least one of BLMIS' creditors. 22 This brings me to the next fundamental point 23 regarding defendants' depletion argument. Section 24 548(a)(1)(A) of the Bankruptcy Code provides that a trustee 25 may avoid any transfer of an interest of the debtor in</p>	<p style="text-align: right;">Page 149</p> <p>1 defeats defendant's depletion of the estate argument. 2 Additionally, the district court has already held 3 in Bear Stearns that depletion of the estate is not an 4 element of a Section 548(a)(1)(A) claim. It found that 5 defendants can raise this issue as an affirmative defense 6 and set forth three elements that defendants must plead and 7 prove to establish the defense. Defendants cannot, nor do 8 they even try to establish any of these elements. Rather, 9 rather than helping defendants, Bear Stearns further 10 bolsters the trustee's argument that these transfers to 11 Citibank and Citicorp depleted the estate. 12 The Southern District in Bear Stearns set forth a 13 three-element affirmative defense that the transferee bears 14 the burden of pleading and proving to establish that a 15 transfer did not deplete the estate. Specifically, the 16 transferee must prove that the transfer did not reduce the 17 (indiscernible) that would have been available to the 18 creditors. It didn't hinder, delay, or defraud any 19 creditors, and it did not have any other adverse impact on 20 any creditor or creditors generally. 21 The Bear Stearns court noted that if the 22 transferee succeeds in successfully making this affirmative 23 defense, the burden then shifts to the trustee to rebut the 24 transferee's showing. Whether the transferee has sustained 25 his ultimate burden of proof will be decided on the entire</p>

<p style="text-align: right;">Page 150</p> <p>1 record before the court. Defendant does not address the 2 elements laid out by Bear Stearns, much less demonstrate 3 that they have established on the face of the complaint as 4 would be required to prevail on an affirmative defense on a 5 motion to dismiss. 6 The Bear Stearns court explained that creditors -- 7 THE COURT: Ms. Charlemagne, do you have all of 8 this in your arguments already, or are you just reading what 9 you gave me? 10 MS. CHARLEMAGNE: I do have a lot of it already in 11 my argument. I can streamline it a bit. 12 THE COURT: Thank you. I would prefer for 13 everybody, if you've said it once, you don't need to say it 14 twice. But if you want to add, I'd like for you to add. 15 Not just give me what you've already given me. 16 MS. CHARLEMAGNE: Okay. I think most of these 17 arguments are in our papers. 18 THE COURT: They're mostly in your papers. And I 19 let you go on for a long time. 20 MS. CHARLEMAGNE: You did. And I appreciate that. 21 Okay. So I think what I'll do is I'll just quickly 22 distinguish Pereira, which is a case that they strongly rely 23 on for their depletion arguments. And then for the customer 24 property argument that they make, I will very briefly touch 25 on that and rest on our papers.</p>	<p style="text-align: right;">Page 152</p> <p>1 our papers for the argument there. 2 THE COURT: Thank you very much. Any quick 3 rebuttal, Mr. Boccuzzi? 4 MR. BOCCUZZI: Yes, if I might, Your Honor. Just 5 three points. 6 THE COURT: You know, I don't mind any points. 7 Just don't repeat what you've given me. 8 MR. BOCCUZZI: I'm not going to repeat. I'll just 9 -- it will be a true reply in terms of points raised by Ms. 10 Charlemagne. 11 Number one, on the Ponzi scheme presumption, the 12 red flags analysis that we heard from Your Honor was nothing 13 more than the allegations as to why Madoff was a Ponzi 14 scheme. We are not, as in many of the cases that the 15 trustee cites, saying that the Ponzi scheme presumption 16 shouldn't apply because there was no Ponzi scheme. We agree 17 there was a Ponzi scheme. What we're saying is that 18 accepting that there was a Ponzi Scheme shouldn't change the 19 rules of the game. And you still have to go transfer-by- 20 transfer. And we cite cases about the Ponzi scheme 21 transaction. 22 Going to these points on Page 15 of our opening 23 brief and also in the In re Churchill case there is the 24 quote, "The fact that the debtor's enterprise as a totality 25 is operated at a loss or in a manner that is fraudulent does</p>
<p style="text-align: right;">Page 151</p> <p>1 THE COURT: Thank you. 2 MS. CHARLEMAGNE: And so for Pereira, I just 3 wanted to clarify that in Pereira, Pereira was in a 4 completely different procedural and factual posture than 5 this case here. It was a full record at summary judgement 6 and the defendants have not shown a single case successfully 7 applying this collapsing doctrine to defeat a Section 8 548(a)(1)(A) claim. 9 In Pereira, the agreements cross-referenced each 10 other. Both agreements were expressly conditioned on the 11 contemporaneous closing of the other transaction and payment 12 on both agreements was accomplished with a single wire 13 transfer. 14 Here, the defendants did not even explain which 15 agreements formed the supposedly integrated transactions. 16 They attempt to utilize an unrelated party's subsequent 17 transfer which held a wholly different BLMIS account as a 18 reason by BLMIS' transfers to Prime Fund did not deplete the 19 estate. 20 So defendants asked this Court to collapse 21 unrelated transactions between separate parties and to 22 ignore economic realities of fraudulent transfers in a plea 23 for equitable relief that has no basis in law or fact. 24 And for the customer property, I don't have 25 anything new to say. So, Your Honor, I will just rest on</p>	<p style="text-align: right;">Page 153</p> <p>1 not render actually or constructively fraudulent a 2 particular transaction which in and of itself is not 3 fraudulent in any respect." And we would say the return of 4 principal is that. 5 And then quickly on Lustig. On Lustig, the 6 argument is really based on what the trustee did vis-à-vis 7 certain customers as part of a settlement to which we were 8 not a party. So that's not binding on us. And importantly, 9 I think the analysis is exactly backwards. I don't think 10 we're arguing anything that would disrupt the net equity 11 rule. There's really two sides to the coin here. What is 12 what is the estate comprised of and what can the estate pull 13 back. And number two with the net equity, how do you divide 14 that up among customers, of which we are not, which also 15 distinguishes from the Lustig case. 16 And so we are saying here if you look at the pie 17 that was the debtors estate as it were and you look at these 18 transactions, there was no depletion of the estate given 19 that when the money came out, it went back in and then some 20 back into the estate. And so without that depletion, you 21 don't have a 548 claim. 22 THE COURT: Anything else either one of you wish 23 to add? 24 MS. CHARLEMAGNE: Nothing else from the trustee, 25 Your Honor.</p>

<p style="text-align: right;">Page 154</p> <p>1 THE COURT: Very good. You will receive a written 2 opinion. 3 The Court needs to take about a five-minute break. 4 (Recess) 5 THE COURT: Very good. We are back on the record. 6 If you would just give me a moment. 7 And now we are at 11-02572, Picard v. Korea 8 Exchange Bank. State your name and affiliation. 9 MR. CIRILLO: Good afternoon, Your Honor. 10 Richard Cirillo. I guess the affiliation is Cirillo Law 11 Office. And I am appearing for the defendant, Korea 12 Exchange Bank. 13 MR. FISH: Good afternoon, Your Honor. This is 14 Eric Fish at Baker Hostetler on behalf of the Trustee. 15 THE COURT: Very good. Excuse me, let me get my - 16 - oh, that's the next one. Here we go. I have it now. And 17 it's your -- Mr. Cirillo, I believe you are the one on the 18 motion to dismiss. 19 MR. CIRILLO: I do indeed. And I appreciate Your 20 Honor's patience in waiting so long to get to my case. 21 THE COURT: Well, you notice I got a little 22 impatient just a minute ago when they were repeating what 23 they had already given me. 24 MR. CIRILLO: Well, on one occasion Your Honor 25 said that you were prepared to sit all day and therefore had</p>	<p style="text-align: right;">Page 156</p> <p>1 essential element of the Plaintiff's claim is that the 2 defendant actually did receive customer property. If the 3 plaintiff does not allege that factually and plausibly the 4 complaint fails. 5 This complaint alleges in Exhibit B that -- and I 6 know everyone else is calling it BLMIS. I've always for 14 7 years called it BLMIS. And with Your Honor's permission I 8 would like to not have to retract my mind. So absent 9 objection, I will call it BLMIS here. 10 THE COURT: Mr. Fish, do you object? 11 MR. FISH: I have no objection as long as I can 12 call it BLMIS as I have been doing for the past 13 years or 13 so. 14 THE COURT: Okay. 15 MR. CIRILLO: Okay. Well, I have a year on you, 16 so I appreciate your concession. 17 THE COURT: Okay. Mr. Cirillo. 18 MR. CIRILLO: Yes. The complaint alleges -- 19 THE COURT: Just so you know, for the transcriber 20 of this, would you please just say BLMIS when you're doing 21 it? I mean not you, the transcriber. I'm giving that 22 message to the person transcribing this. Okay. 23 MR. CIRILLO: Good, good. 24 The complaint alleges in Exhibit B that BLMIS 25 transferred \$3 billion to Fairfield Sentry. In Exhibit C --</p>
<p style="text-align: right;">Page 155</p> <p>1 brought snacks. I hope you had brought snacks today. 2 THE COURT: I did. I did. I did. 3 MR. CIRILLO: Okay. Well, I will proceed, Your 4 Honor, if I may. 5 THE COURT: Please. 6 MR. CIRILLO: Korea Exchange Bank is a Korean 7 bank, and it was trustee, as alleged in the complaint, of 8 two Korean investment trusts. The complaint does not allege 9 that KEB -- and I'll call Korea Exchange Bank KEB -- does 10 not allege it conducted any activities in the United States 11 in connection with Fairfield's shares. 12 I would like to cover three topics. One is 13 customer property, the second is the Fairfield complaint, 14 and the third is personal jurisdiction. And we'll be happy 15 to rest on the papers for our 546(e) position. 16 I have read carefully all the Court's decisions in 17 other subsequent transfer cases, and I am arguing this 18 motion because I believe the KEB complaint and the arguments 19 we are proposing to Your Honor are different from what has 20 been presented before. And those different arguments are 21 what I believe deserve dismissal of the KEB complaint in all 22 or in part either with prejudice or with leave to amend. 23 The first issue I would like to address is the 24 failure of the KEB complaint to allege that KEB received any 25 customer property. I think it's unquestioned that an</p>	<p style="text-align: right;">Page 157</p> <p>1 and it alleges that in Exhibits C or CD and so forth to the 2 subsequent transfer complaints before Your Honor, they 3 alleged collectively that Fairfield transferred out \$5 4 billion. The complaint does not in fact say that Fairfield 5 had no source of money other than BLMIS. And obviously if 6 it paid out \$2 billion more than it got from BLMIS, it did 7 have another substantial source of money. 8 The exhibits in the subsequent transfer cases 9 except other than this one against KEB are before the court 10 and part of this case, and they need to be considered in 11 evaluating whether this complaint alleges the receipt of 12 customer property. 13 The first reason is, as the Court correctly held, 14 all the subsequent transfer actions are part of the same 15 case. In doing so, the Court cited Judge Fitzsimmons' 16 decision in In re In re Geiger, 446 B.R. 670 (Bankr. E.D. 17 Pa. 2010). 18 The second reason they are before the Court and in 19 this case are that the exhibits in each of the subsequent 20 transfer complaints are judicial admissions in the same case 21 and are binding on the plaintiff. The plaintiff cannot 22 escape or disavow those admissions. And for that, I would 23 cite Guadagno v. Wallack Ader Levithan Associates, 950 F. 24 Supp. 1258 (S.D.N.Y. 1997), which in turn cites a Seventh 25 Circuit decision.</p>

<p style="text-align: right;">Page 158</p> <p>1 The third reason is that the court may take 2 judicial notice of those exhibits in the other subsequent 3 transfer cases and what the plaintiff says in those 4 exhibits. The plaintiff admitted that judicial reference 5 may be taken of other complaints in the case in his 6 arguments about incorporating the Fairfield insider 7 complaint. 8 Therefore, the plaintiff has alleged that 9 Fairfield paid out money that did not come from BLMIS and 10 therefore is not customer property. Someone got that \$2 11 billion. The complaint only said, in a conclusory, non- 12 factual, conjectural sense, that a portion of the 13 redemptions to KEB were customer property. That allegation 14 is non-factual, it is not made on personal knowledge, and is 15 not entitled to credit. 16 The complaint also doesn't allege that the 17 redemptions did not or could not have come entirely from the 18 \$2 billion. He has not alleged, therefore, that it is more 19 than a possibility that KEB receive customer property from 20 the \$3 billion of BLMIS transfers. 21 But he also admits in the allegations I've 22 referred to that it is equally possible that none of KEB's 23 \$33 million of redemptions came from the \$3 million, but 24 instead came from the \$2 billion. 25 So because he hasn't pled that, he has to rely on</p>	<p style="text-align: right;">Page 160</p> <p>1 whatsoever in the complaint, and that is required, he needs 2 an inference to tie the \$33 million to the \$3 billion. And 3 the inference is exactly what the Supreme Court's decisions 4 in the Twombly and Iqbal cases address. That's exactly the 5 issue of what permits an inference. And the court says 6 simply that the presentation of two equal possibilities does 7 not suffice to permit an inference. And that is what we 8 have here; the possibility that the KEB transfers may have 9 come from the \$3 billion and the possibility that they may 10 have come from the \$2 billion. If they come from the \$3 11 billion, there is a possible liability. If they come from 12 the \$2 billion, there's no possible liability and the 13 complaint has to push that over the line from possible to 14 plausible. 15 Again, to emphasize how closely Twombly and Iqbal 16 dictate the result, Twombly was a Sherman Act Section 1 case 17 which require the plaintiffs as an essential element to 18 allege that the defendants acted at a competitive contract 19 combination or conspiracy, or to put it another way, they 20 acted in concerted action. 21 The complaint alleged factually that the 22 defendants reacted to the plaintiff's market conduct, 23 finding it to be a competitive threat. The facts also 24 allege that the defendants all reacted in an identical or 25 very similar way to that. The plaintiff asked the court to</p>
<p style="text-align: right;">Page 159</p> <p>1 an inference in order to -- 2 THE COURT: Wait. Explain the \$2 billion to me 3 again. What does that -- 4 MR. CIRILLO: I'm sorry, say that again? 5 THE COURT: What is that \$2 billion you just 6 talked about? 7 MR. CIRILLO: Yes. If you add up all of the 8 exhibits in all of the subsequent transfer complaints that 9 are before Your Honor that allege subsequent transfers to 10 subsequent transferees, they don't add up to \$3 billion; 11 they add up to \$5 billion. And so the difference of what 12 Fairfield paid to the subsequent transferees is obviously 13 not customer property of BLMIS; it has to have come from 14 someplace else. 15 Up to this point, the argument has been made that 16 each complaint is different and the court judges on a 17 12(b)(6) motion judges what is in the four corners of the 18 complaint. But because they are allegations and judicial 19 admissions in the same case and the Court can also take 20 judicial notice of what they say, that is why we are 21 entitled to argue that the Plaintiff has failed to tie the 22 \$33 million of Fairfield's transfers to KEB to the \$3 23 billion rather than the \$2 billion. And that because he 24 hasn't pleaded them other than in the conclusory statement 25 that a portion of them did, which has no factual support</p>	<p style="text-align: right;">Page 161</p> <p>1 draw an inference that this uniform behavior was sufficient 2 to allege the essential element of a concerted action. 3 The court, however, pointed out that the same fact 4 that the defendants -- the same facts supported that the 5 defendants' identical behavior was not a result of concerted 6 action, but instead the independent business decisions of 7 each of the defendants, not a conspiratorial one, but each 8 one deciding to respond to the competitive threat in the 9 same way. 10 And so as in our case, the alleged facts presented 11 two equal possibilities, and the court said that isn't 12 sufficient and it dismissed the complaint. That's where the 13 Twombly phrase that we so often hear, "Nudging from what is 14 possible or conceivable, but what is plausible" comes about. 15 The court held very clearly that an inference to 16 survive a 12(b)(6) motion must be reasonable, and must be 17 based on facts alleged in the complaint. It said that if it 18 didn't, the allegation did not show entitlement to relief as 19 both 12(b)(6) and Rule 882 require. 20 Iqbal, two years later, held that Twombly applies 21 to all civil cases, including bankruptcy cases, by citing 22 Federal Rule of Civil Procedure 1. And so in Iqbal, the 23 plaintiff had brought a Bivens constitutional discrimination 24 claim alleging that he was remanded to especially harsh jail 25 confinement because he practiced Islam and because he was a</p>

Page 162	Page 164
<p>1 national of a Middle Eastern country. He claimed that he 2 was partially confined for religion and nationality. And 3 that in fact was possible on the factual allegations of the 4 complaint.</p> <p>5 But the court pointed out that the government had 6 shown that Mr. Iqbal was confined or alleged that Mr. Iqbal 7 was confined in strict conditions because he was or he may 8 have been a combatant against the United States following 9 the September 11th catastrophe.</p> <p>10 The court found that without factual allegations, 11 those two possibilities were equal and that without more 12 factual content, as the court called it, the complaint 13 failed to nudge the claim over the line from possible or 14 conceivable to plausible.</p> <p>15 So these require two things. The Supreme Court 16 decisions require factual allegations to satisfy Rule 17 8(a)(2) and they require a factual basis underlying a 18 reasonable inference to satisfy 12(b)(6) if an inference is 19 needed to allege an indispensable element of a claim. There 20 are many cases that decisions that apply Twombly and Iqbal 21 as indeed they must because it is our controlling precedent.</p> <p>22 Coming back to why it's relevant here. The 23 plaintiff alleges and admits that Fairfield made \$5 billion 24 of transfers to subsequent transferees, but sent only \$3 25 billion to its -- but BLMIS sent only \$3 billion to</p>	<p>1 Also, the vital statistics approach doesn't apply 2 because that requires the who, when, and how much. But in 3 this case, who sent the subsequent transfers and how much of 4 them purportedly came from BLMIS are not alleged, whereas in 5 other cases using those approaches there's always something 6 more, like ledger entries approximate in time or identical 7 in amount. I won't cite the cases because the citations are 8 in the brief.</p> <p>9 This is also not a complicated exercise --</p> <p>10 THE COURT: This is not your personal 11 jurisdiction. This is general.</p> <p>12 MR. CIRILLO: No.</p> <p>13 THE COURT: Okay.</p> <p>14 MR. CIRILLO: This is the customer property issue.</p> <p>15 THE COURT: Okay. All right.</p> <p>16 MR. CIRILLO: I'm almost to the end of it. I just 17 want to also, because of comments in other decisions, say 18 that this is not an exercise that complicated matching of 19 dates and amounts that you have seen. It only takes the 20 factual allegations the plaintiff has made in his exhibits 21 and adds them up arithmetically.</p> <p>22 Therefore, lacking the critical element of 23 customer property, I believe the complaint should be 24 dismissed under Rules 8(a)(2) and 12(b)(6).</p> <p>25 Quickly on the incorporation of the Fairfield</p>
Page 163	Page 165
<p>1 Fairfield.</p> <p>2 That is -- it is possible that the \$3 billion was 3 the source of all or a portion of the KEB subsequent 4 transfers, but it is equally possible that the \$2 billion 5 was the source. This, because it leaves two equal 6 possibilities that have no factual content to nudge them 7 across the line, requires dismissal.</p> <p>8 Now, to tie up a few loose ends, this pleading 9 failure is not cured by the relevant pathways approach. The 10 relevant pathways cases require a showing through which -- a 11 showing by which the funds were transferred from BLMIS to in 12 this case KEB. And that's in the Picard v. Charles Ellerin 13 Revocable Trust case, WL 892514 *3 (Bankr. S.D.N.Y. March 14 14, 2012).</p> <p>15 THE COURT: Let me ask you what you're adding to 16 your papers, Mr. Cirillo. Please add to them.</p> <p>17 MR. CIRILLO: Well, Your Honor, the papers come in 18 in a sequence, and I am trying to tie them together in a way 19 that makes sense and also to address some issues that may 20 arise because there are prior decisions in subsequent 21 transferee cases that make statements such as that the 22 relevant pathways approaches is appropriate. And I am 23 saying that in this case at least, that there is no showing 24 of a relevant pathway because it doesn't show that the \$33 25 million came from the \$3 billion.</p>	<p>1 affiliates and insider complaint.</p> <p>2 THE COURT: Let me just ask you a question though. 3 And I do want to ask this question. I think what you just 4 told me on that customer property argument, that sounded 5 like trial to me. It doesn't sound like a motion to 6 dismiss. So can you link that to a motion to dismiss for 7 me, please?</p> <p>8 MR. CIRILLO: Yes. Because the complaint does not 9 allege an indispensable element of the cause of action, 10 which is an allegation, a factual --</p> <p>11 THE COURT: So you're saying that every one of 12 these cases I should have dismissed, because everybody makes 13 that same argument. But you said no, no, you're different. 14 And how are you different?</p> <p>15 MR. CIRILLO: Your Honor, I understand that Your 16 Honor has made that ruling in other cases.</p> <p>17 THE COURT: Many times.</p> <p>18 MR. CIRILLO: And it that the facts in the 19 complaint against KEB are different, firstly. And second, I 20 do believe that Your Honor was wrong in all those cases. 21 But that's not my --</p> <p>22 THE COURT: But how? But how?</p> <p>23 MR. CIRILLO: Because Your Honor may not have 24 evaluated the absence of any factual allegation that ties 25 the payments to the \$3 billion of BLMIS money rather than to</p>

<p style="text-align: right;">Page 166</p> <p>1 the equally-alleged, admitted -- judicially admitted \$2 2 billion that Fairfield paid out that didn't come from BLMIS. 3 That's \$2 billion of non-customer property being paid out. 4 There is \$3 billion paid -- 5 THE COURT: But Mr. Cirillo, Fairfield didn't have 6 any other money. 7 MR. CIRILLO: That's not true, Your Honor. There 8 is no allegation to that effect, firstly. At least in the 9 KEB complaint. And secondly -- 10 THE COURT: (indiscernible). 11 MR. CIRILLO: -- the plaintiff's own exhibits 12 prove that it had \$2 billion of resources other than from 13 BLMIS. I have not put in this because it is a pleading 14 motion, and it does show that there is the absence, the lack 15 of an indispensable element of the claim, but I haven't put 16 in the fact that there are allegations and concessions that 17 Fairfield was paying subsequent transfers out of newly- 18 received subscription money rather than passing it to BLMIS 19 and then having BLMIS pass it back to Fairfield for 20 Fairfield to pass back. That money would not be as an 21 example that -- the plaintiff does not negate in the 22 pleadings in any fashion -- as an example of non-customer 23 property that is equally possible to have been the source of 24 the KEB payments. 25 That is why under the Supreme Court decisions it</p>	<p style="text-align: right;">Page 168</p> <p>1 Rule 8(a)(2) because the incorporation caused the complaint 2 not to be a short and plain statement. 3 KEB also based its motion on both Rules 10(c) and 4 8(a)(2). And so while the incorporation may be permissible, 5 the short and plain statement is not accomplished, and 6 therefore the case is dismissible for that separate reason. 7 Courts have reached exactly the same position allowing 8 incorporation under 10(c) and then dismissing because the 9 incorporation made the complaint not a short and plain 10 statement. One case, Davis v. Bifani, 2007 U.S. Dist. LEXIS 11 3800, and American Casein Company v. Geiger (In re Geiger) 12 446 B.R. 670 (E.D. Pa. 2010). I am not certain I have that 13 court and date right, but I know it's the right case. It's 14 cited correctly in the brief. 15 What am I asking for relief? Certainly I am not 16 asking the Court to order the Plaintiff to type all of the 17 allegations of the Fairfield complaint into the KEB 18 complaint. That wouldn't accomplish anything. I certainly 19 see that. But what the plaintiff does know, and only the 20 plaintiff knows, is and can quickly, inexpensively, and 21 without delaying the case put those paragraph numbers -- and 22 if less than a full paragraph, the sentence into a list and 23 we can put the list in the stipulated order. That is more 24 efficient than a Rule 12(f) motion to strike the immaterial 25 parts of the KEB complaint that are incorporated into it.</p>
<p style="text-align: right;">Page 167</p> <p>1 is crystal clear that the plaintiff has made no factual 2 allegations and in fact the only allegation is a bare bones 3 conclusory statement that a portion of the payments to KEB 4 came from BLMIS. That is not acceptable under any 12(b)(6) 5 or 8(a)(2) pleadings standard. And that is why, Your Honor, 6 I don't carry the water for any other defendant. And 7 regrettably, I didn't get to argue as the first case, but I 8 don't believe that KEB should be disadvantaged because I am 9 briefing and arguing at this point rather than in the 10 beginning of the sequence. And I believe these arguments 11 are soundly supported by a controlling precedent, and 12 therefore they should be considered very carefully and I 13 believe accepted. 14 So may I continue to the incorporation briefly? 15 THE COURT: Please. 16 MR. CIRILLO: Okay. The court has held that the 17 Fairfield insider complaint may properly be incorporated 18 into the subsequent transfer complaints under Rule 10(c). 19 Forgive me for drinking, but I don't want to lose 20 my voice. 21 And the Court cited In re In re Geiger, 446 B.R. 22 670 (Bankr. E.D. Pa. 2010) for that point. And indeed, 23 that's what Judge Fitzsimon did in that case. But then 24 immediately in the next sentence after doing so, allowing 25 the incorporation, she then dismissed the complaint under</p>	<p style="text-align: right;">Page 169</p> <p>1 And I have to say that despite KEB's and my 2 involvement in the Madoff cases for -- well, 14 years and 3 KEB 11 years, I don't know and KEB doesn't know what the 4 plaintiff has in mind. He has alleged hundreds of 5 paragraphs of allegations. He has attached dozens of 6 exhibits, none of which are directed at KEB. The KEB 7 complaint is the blueprint for this case if it goes forward. 8 And KEB and I are really entitled to know under Rule 8(a)(2) 9 a short, plain statement of what it is we are defending. 10 And we don't know that at this point. 11 If Your Honor permits, I will move to the personal 12 jurisdiction points, which -- 13 THE COURT: Please. 14 MR. CIRILLO: -- are also important and also 15 should result in a dismissal of the complaint, whereas 16 obviously the incorporation point does not seek a dismissal; 17 it seeks less relief of having them give me a list. All 18 right. 19 Personal jurisdiction. All of the plaintiff's 20 allegations against -- involving KEB and personal 21 jurisdiction are in paragraphs 5 and 6 of the complaint. 22 Nine of the allegations in those paragraphs are purely 23 conclusory, conjectural, and statements of law, and the law 24 clearly bars them from consideration. 25 For the Court's convenience -- and I put the exact</p>

<p style="text-align: right;">Page 170</p> <p>1 language of the allegation and the specific reason it cannot 2 be considered on this motion as an appropriate probative 3 allegation of jurisdiction in a chart at Pages 8 and 9 of 4 KEB's reply memorandum, which is ECF Docket 143 filed on 5 August 15 of this year. 6 Iqbal and Twombly that I have already discussed 7 say the factual matter is required to survive Rule 8012 8 motions, and it also says that a non-factual allegation, a 9 conjectural, speculative, conclusory legal opinion type of 10 allegation is not entitled to a presumption of truth. 11 That's very important because we hear all the time that the 12 plaintiffs are entitled to a presumption of the truths of 13 their allegations. But as the Supreme Court said many times 14 in those opinions, only if they are factual. 15 And the second thing is that they have to be 16 factual or they may not serve as a basis for a reasonable 17 inference of something else. And that again is in those 18 cases. And I would also cite In re Lyondell Chemical 19 Company, 543 B.R. 400, 411 (Bankr. S.D.N.Y. 2016), and 20 DirecTV Latin America, LLC v. Park 610, LLC, 691 F.Supp. 2d 21 405 (S.D.N.Y. 2010). 22 I am not going to discuss those conclusory 23 allegations further. There are four assertions on which the 24 plaintiff rests personal jurisdiction that are fact-based 25 but that do not result in any or all of their cases,</p>	<p style="text-align: right;">Page 172</p> <p>1 says, "Prior to discovery, a plaintiff challenged by a 2 jurisdiction testing motion may defeat the motion by 3 pleading good faith," and this is key, "legally sufficient 4 allegations of jurisdiction," and that a 12(b)(2) motion 5 "assumes the truth of the plaintiff's factual allegations 6 for purposes of the motion and challenges their 7 sufficiency." 8 So if there aren't factual allegations, and in 9 this case the plaintiff is looking for an inference, there 10 aren't factual allegations, there's no inference and no 11 factual allegations. 12 All right. Let me also before hitting the four 13 points put on the table exactly what minimum contact test 14 is. We all know that it's purposeful availment. But what 15 Hanson said is more than that. Chief Justice Warren said it 16 is essential in each case that there be some act by which 17 the defendant purposely avails itself of the privilege of 18 conducting activities within the forum state. Thus -- from 19 those activities conducted within the forum state, thus 20 invoking the benefits and protections of its law. And 21 that's cited to Justice Stone's opinion in International 22 Shoe, which is by contrast on the facts one in which there 23 were sufficient context with Florida -- I'm sorry, 24 sufficient context, whereas in Hanson there were not. 25 The first of the four allegations that have some</p>
<p style="text-align: right;">Page 171</p> <p>1 individually or collectively, in jurisdiction. 2 First I will note that the plaintiff argued that 3 factual allegations aren't necessary on a motion to dismiss 4 for lack of jurisdiction. And that's just directly contrary 5 to what Twombly and Iqbal say. Iqbal in fact said the 6 pleadings that are no more than conclusions are not entitled 7 to assumption of truth. Well-pleaded allegations are 8 allowed the presumption of veracity and they are what are 9 necessary in determining if they plausibly rise to an 10 entitlement to relief. And in this case, plausible arise 11 the inference is what one makes of these four allegations in 12 terms of the personal jurisdiction contention; do they allow 13 an inference of jurisdiction? 14 In fact, the Supreme Court expressly rejected the 15 assertion that no facts are required in a footnote in which 16 it dismissed the defense's actual statement of that 17 position. It gave a long discussion of it. But it said in 18 summary Rule 8(a) contemplates the statement of 19 circumstances, occurrences, and events in support of the 20 claim presented and does not authorize a pleader's bare 21 (indiscernible) that he wants relief and is entitled to it. 22 And that was also the holding in a case Your Honor 23 cited in many of the prior opinions, Dorchester Financial 24 Securities Ind v. Banco BRJ SA, which is a Second Circuit 25 2013 decision at 722 F.3d at pages 84-85 where the court</p>	<p style="text-align: right;">Page 173</p> <p>1 factual foundation is that KEB received and read Fairfield's 2 2004 private placement memorandum. As Your Honor knows, 3 there was a whole series of Fairfield private placement 4 memoranda and they didn't all say the same thing. In fact, 5 after the SEC got on Madoff's tail and made him register as 6 an investment advisor in 2006, there was a lot more in his 7 private placement memorandums than there had been before. 8 And that's important because the plaintiff puts 9 the 2004 memorandum before the court as Exhibit 1 to Mr. 10 Fish's declaration. And what we find is that the exhibit 11 itself, which necessarily overrides the complaint's 12 mischaracterizations, shows that KEB could not have learned 13 from that document that BLMIS was managing Fairfield's 14 assets in New York and it could not have learned that 15 Fairfield's redemption payments came from BLMIS to the 16 extent they want -- well, came from BLMIS, period. 17 These are not only not stated in the one thing 18 that's factually alleged, the PPM, and it is therefore not 19 inferable from the PPM that KEB knew that the money it was 20 sending and the money it was receiving to and from Fairfield 21 was actually going to BLMIS and coming from BLMIS. 22 In fact, the only reference to BLMIS in the 2004 23 PPM is that BLMIS was a sub-custodian of Fairfield asset, 24 sub-custodian to Citco. It is a commonly-known industry 25 term that shows a sub-custodian is an entity that holds on</p>

<p style="text-align: right;">Page 174</p> <p>1 to assets, but not an entity that invests or manages funds 2 for another.</p> <p>3 In fact, the 2014 PPM says 17 times that the split 4 strike conversion strategy was being -- or that a company in 5 Bermuda with a Bermuda address was Fairfield's investment 6 manager and that it was overseeing Fairfield's strategy of 7 investment called the split strike conversion strategy.</p> <p>8 The plaintiff points out that the PPM explains 9 that the split strike conversion strategy involved trading 10 by Fairfield in U.S. securities. That's true, but it's 11 irrelevant under both <i>Hanson v. Denckla</i> and <i>Walden V. Fiore</i>, 12 which is at 571 U.S. 277, because there's no allegation that 13 KEB performed any of that trading. And as the cases hold, 14 personal jurisdiction over a foreign defendant depends on 15 that foreign defendant's activity, not on the activity of 16 third parties. That is a position the Supreme Court has 17 stated both for commercial cases, as in <i>Hanson</i>, which 18 actually addressed the point, and also in <i>Walden</i> for tort 19 cases.</p> <p>20 Therefore, while I do recognize that Judge 21 Lifland's 2012 BLI decision embraced a view that knowledge 22 by a defendant about what a third party would or wouldn't 23 do, or would or might do sufficed for jurisdiction, that 24 decision is in direct conflict with the Supreme Court's 25 prior decision in <i>Hanson</i> and also was effectively overruled</p>	<p style="text-align: right;">Page 176</p> <p>1 Bring your Dogs to Work Day. And so they are expressing 2 their views of my argument.</p> <p>3 THE COURT: Good or bad?</p> <p>4 MR. CIRILLO: I'll have to consult with them 5 later. But ultimately only your view counts. All right.</p> <p>6 Why are the forum and governing law clauses not 7 contacts with New York? Let's look at the forum provision.</p> <p>8 The forum provision is not an exclusive 9 jurisdiction provision. All it says is that Fairfield may 10 drag KEB into New York court. It does not say that KEB 11 can't sue in another court. It does not say that Fairfield 12 Sentry can't sue in another court. And of course they are 13 both foreign entities and other courts are available. In 14 fact, Fairfield Sentry, Your Honor knows from the Migani 15 case, did sue subsequent transferees in BVI and did not 16 insist that that case proceed here.</p> <p>17 So if anybody got the benefit or privilege of New 18 York forum, it was not KEB; it was Fairfield. It did not 19 reflect any conducting of activity by KEB in New York. If 20 KEB had sued in New York, that would have been a contact. 21 But it didn't. And so that is not a sufficient basis. The 22 forum clause is not a sufficient basis to say that it was a 23 contact by KEB in New York by which it was invoking benefits 24 or privileges of New York.</p> <p>25 The governing law provision is also not a relevant</p>
<p style="text-align: right;">Page 175</p> <p>1 by the Supreme Court's subsequent decision in 2014 by <i>Walden</i> 2 where the court said the relationship must arise out of 3 contacts that the defendant himself creates with the forum 4 state. Due process limits on the adjudicative authority 5 principally protect the liberty of the non-resident 6 defendant, not the convenient of plaintiffs or third 7 parties. We have consistently rejected attempts to satisfy 8 the defendant-focused minimum contacts inquiry by 9 demonstrating contacts between the plaintiff or third 10 parties and the forum state. For that, the court cited 11 <i>Hanson</i> and three other Supreme Court cases.</p> <p>12 Therefore, the argument -- and I know it's a very 13 initially attractive idea that tossing a seed and growing an 14 orchard may have been what some defendants did, not KEB. 15 But throwing -- knowing only and nothing more than that 16 Fairfield was executing its split strike conversion strategy 17 itself, or even if it knew it was by BLMIS, which it didn't, 18 is not a basis to support jurisdiction over KEB.</p> <p>19 Moving on. The second of the allegations that had 20 some foundation in fact -- in the allegations is that the 21 New York forum and New York governing law clauses and the 22 subscription agreements between KEB and Fairfield is itself 23 a relevant contact. That's not true.</p> <p>24 If you can hear the dogs in the background, Your 25 Honor, I have to admit, I got a memorandum saying this is</p>	<p style="text-align: right;">Page 177</p> <p>1 contact. A governing law provision in a contract is only a 2 rule for its interpretation and enforcement. It does not -- 3 citing it does not avail the person of a privilege or 4 benefit of conducting an activity in New York. That's what 5 <i>Hanson Denckla</i>, all the other cases require. The citing of 6 a governing law provision is a frame of reference for 7 litigation for the parties to negotiate and for arbitrators 8 to interpret the contract.</p> <p>9 New York does not -- it makes New York law, it 10 doesn't own it. It's not something that it can prevent 11 somebody from citing. And citing it does not subject 12 someone to the jurisdiction of the court, of a New York 13 court simply because it wants to refer to that as the frame 14 of reference. It's not a privilege of conducting activities 15 in New York. Any decisions that say or imply otherwise 16 either are based on different facts than those are alleged 17 or they fail to apply the controlling Supreme Court law and 18 are therefore not viable precedents.</p> <p>19 The third contact is that KEB filed proofs of 20 claim in the BLMIS bankruptcy. And that's true. But in 21 this case, it does not provide a basis for personal 22 jurisdiction. When KEB filed those claims, the court did 23 indeed have personal jurisdiction over KEB to adjudicate its 24 claims against the -- KEB's claims against the BLMIS estate. 25 However, several years before the plaintiff filed this</p>

<p style="text-align: right;">Page 178</p> <p>1 adversary proceeding, the plaintiff rejected KEB's claims in 2 the bankruptcy. At that point, the court's jurisdiction 3 over KEB based on the proofs of claims ended. The Court had 4 no longer a basis for jurisdiction. And the filing of the 5 adversary proceeding did not revive it.</p> <p>6 The rationale for the rule that filing proofs of 7 claim subjects the filer to the court's jurisdiction in an 8 adversary proceeding is based specifically on the desire to 9 have both the claims and the adversary proceeding resolved 10 in a single case before a single judge. It is a judicial 11 convenience rule, and that allows the court to net the 12 outcomes of both parties prevail. However, that rationale 13 does not and cannot apply if the bankruptcy claim was 14 rejected before the adversary claim is filed. And as is 15 known, the presence or absence of jurisdiction is determined 16 at the moment the adversary proceeding is filed. And so at 17 the time that this case against KEB was filed, there was not 18 any proof of claim proceeding, proof of claim on file having 19 already been rejected.</p> <p>20 I did not find a case on all fours, but I did find 21 relevant precedent, and that is cited and discussed and 22 quoted at some length in the briefs and in the memoranda. 23 Those cases look at the very analogous point of whether the 24 filing of a proof of claim or the unfiled of a proof of 25 claim permits the defendant in an adversary proceeding to</p>	<p style="text-align: right;">Page 180</p> <p>1 agreement signed by Fairfield and KEB provide, was actually 2 transferred from KEB's account in Korea and to Fairfield's 3 account with Citco in Ireland and then in reverse, from 4 Ireland to Korea. Those are the accounts designated in the 5 subscription agreements.</p> <p>6 Personal jurisdiction, as I believe Your Honor has 7 said in some of the decisions, is determined by the law of 8 New York. That's what the Second Circuit said in the Licci 9 v. Lebanese Canadian Bank SAL, 732 F.3d 161 (2d Cir. 2013). 10 And indeed, in that case the Second Circuit questions the 11 New York Court of appeals in order to find out, ask it to 12 explain what the law of New York is on this point of when 13 bank accounts, use of bank accounts confer jurisdiction or a 14 contact for conferring jurisdiction over a foreign 15 plaintiff.</p> <p>16 Because New York law governs, the New York Court 17 of Appeals decisions are definitive. They can't be ignored 18 or overridden by any other court. And there are three 19 specific cases that define the law in this area. Amigo v. 20 Marine Midland, 39 N.Y.2d 391, Licci v. Lebanese Canadian 21 Bank, 20 N.Y.3d 327 (2012), and Rushaid v. Pictet, 28 N.Y.3d 22 316 (2016). Another case cited, a recent appellate division 23 case, First Department cited in the briefs confirmed that 24 these three cases remain the law of New York.</p> <p>25 So what do they hold? They hold that a non New</p>
<p style="text-align: right;">Page 179</p> <p>1 have a jury trial of the adversary claim or does not permit 2 that. And it's based on whether equity jurisdiction exists 3 in the court because of the filing of the proof of claim in 4 the bk proceeding. And those cases are explored in great 5 depth in the original brief we filed, which is Docket 138, 6 filed on May 16th of this year, and Docket 145, filed on 7 August 15.</p> <p>8 They hold that a jury trial right under equity 9 jurisdiction in an adversary proceeding is defeated by the 10 pendency of a bankruptcy court filing, citing the 11 conservation of resources theory. But they also say that if 12 the claim is properly withdrawn or was concluded, the former 13 claimant regarding his right or its right to the jury trial 14 in the adversary proceeding because the court's equity 15 jurisdiction had ended. And that's the situation that 16 applies here in the related context, what I believe is a 17 related context.</p> <p>18 Therefore, the former proofs of claim filed by KEB 19 are also not relevant contacts and do not confer a basis for 20 jurisdiction under the minimum contact test.</p> <p>21 The fourth and final factually-asserted alleged 22 contact is that KEB made and received share payments through 23 New York bank accounts. And I underscore the word through 24 rather than to because the allegation acknowledges that the 25 money was actually transferred, as the subscription</p>	<p style="text-align: right;">Page 181</p> <p>1 York person's use of a New York account is not a relevant 2 contact for jurisdiction unless two conditions are met. One 3 condition is that the account -- the use of the account must 4 be integral to carrying out an illegal scheme.</p> <p>5 The second condition is that the foreign user of 6 the account must have been an active participant in the 7 illegal scheme. Neither is alleged against KEB. And in 8 fact, there is not even an allegation that KEB was aware of 9 the Ponzi scheme, and it wasn't. All right.</p> <p>10 In Licci, the illegal scheme was the financing of 11 international terrorism. In Rushaid it was an international 12 bribery and money laundering scheme. In both cases, the 13 defendant, the foreign defendant resisting jurisdiction was 14 an active participant, and in both cases the defendant 15 resisting jurisdiction was using it as an integral part to 16 carrying out the terrorism or bribery and money laundering 17 schemes.</p> <p>18 The New York Court of Appeals recognizes that 19 trillions of dollars of ordinary commercial transactions, 20 innocent transactions pass through New York banks every day 21 on their way between foreign banks. The New York Court of 22 Appeals indicated no intention -- it did not indicate any 23 intention that its decisions would apply to ordinary 24 commercial transactions which would or at least could have a 25 serious chilling effect on that commerce if international</p>

Page 182	Page 184
<p>1 parties were routinely exposed to personal jurisdiction in 2 New York, a place that many non-Americans would rather not 3 litigate.</p> <p>4 Amigo, the first of the three cases -- and that is 5 the undergirding for the Licci and Rushaid cases, said the 6 use of a New York bank for international transactions could 7 not by itself constitute a relevant jurisdictional contact. 8 Licci and Rushaid, which came later, made an exception for 9 use of an account to accomplish wrongdoing.</p> <p>10 The plaintiff argues in his opposition memorandum 11 that, well, BLMIS' Ponzi scheme was illegal and therefore he 12 has alleged facts bringing the case within the New York 13 exception. That -- it is true that BLMIS' Ponzi scheme was 14 illegal, but it does not confer jurisdiction over KEB. KEB 15 is not alleged to have known of the Ponzi scheme, certainly 16 not alleged to have been an active participant in the Ponzi 17 scheme.</p> <p>18 Furthermore, even assuming BLMIS and Fairfield 19 were wrongdoers and their use of the New York banks was 20 integral to their scheme, what they do cannot be attributed 21 or imputed to KEB because of the decisions of the Supreme 22 Court in Hanson and Walden. Only KEB's activities are 23 relevant to the minimum contacts analysis.</p> <p>24 Therefore, KEB's innocent use of New York banks in 25 ordinary commercial payments flowing between an Irish and a</p>	<p>1 which says defendant's principal contrary authority, Hill v. 2 HSBC Bank, et cetera, is distinguishable, and then goes on 3 to distinguish that the BNC facts were strongly in favor of 4 jurisdiction, but the acuity of facts in Hill were not.</p> <p>5 The plaintiff says that, well, BNC said the Hill 6 decision isn't relevant because it deals with Tremont. 7 That's just not the case. It is relevant because of what 8 the district court held and the BNC court did not in any 9 fashion undermine the decision in Hill.</p> <p>10 If I didn't cite BNP, it's SIPC v. Bernard L. 11 Madoff Investment Securities LLC, 594 B.R. 167 (Bankr. 12 S.D.N.Y. 2018)</p> <p>13 With that, I will end. Appreciate Your Honor's 14 great patience and hoping that I have persuaded you and the 15 two dogs and ask Your Honor to dismiss this action against 16 KEB under Rules 12(b)(6) and 8(a)(2).</p> <p>17 THE COURT: Very good. Mr. Fish?</p> <p>18 MR. FISH: Thank you, Your Honor. I will touch 19 briefly on the customer property and Fairfield complaint 20 incorporation by reference issues first.</p> <p>21 As articulate as Mr. Cirillo was in making both of 22 those arguments, they are really the same ones that have 23 been made in all of the past subsequent transfer actions 24 that have filed motions to dismiss, and they're the same 25 arguments that have been rejected.</p>
Page 183	Page 185
<p>1 Korean bank is not relevant to jurisdiction over KEB as a 2 matter of New York law established by New York courts. If 3 other course have reached a different decision, it is of no 4 moment because only New York's court of appeals can 5 determine what New York's law is, and we know exactly what 6 its law is from the Amigo Farms, Licci, and Rushaid cases.</p> <p>7 Finally, I acknowledge the totality of the 8 circumstances test for personal jurisdiction. However, 9 parsing this between the generalized conclusory allegations, 10 the nine allegations in Pages 8 and 9 of the reply brief and 11 parsing these four contacts, not one of them is sufficient 12 as a contact, a relevant contact for jurisdiction. And 13 therefore, they can't add up to a totality of minimum 14 contacts. Adding a bunch of zeroes still leaves you with a 15 zero.</p> <p>16 Even if the Court were inclined to find one of 17 them or two of them sufficient, the cases defining what the 18 totality of circumstances test is made it clear that it is a 19 robust evaluation of whether in their totality there is a 20 showing of doing business that takes advantage or privileges 21 of New York. And those are not the case here.</p> <p>22 And for that as my final citation, I will point 23 the Court to the Hill decision, Hill v. HSBC Bank PLC, 207 24 F.Supp. 3d 333 (S.D.N.Y. 2016), which was distinguished but 25 not rejected in the BNP decision that's often mentioned</p>	<p>1 So for the customer property issue, the trustee 2 has alleged the relevant pathways, including the transfers 3 from BLMIS to Fairfield Sentry, and then the transfers from 4 Fairfield Sentry to KEB. The Exhibit B to the complaint 5 includes all of the transfers from BLMIS to Fairfield 6 Sentry. And Exhibit C includes all 22 transfers from 7 Fairfield Sentry to KEB. That's all that the trustee needs 8 to do at this point. The trustee has alleged the relevant 9 pathways, including identifying each transfer by date and 10 amount from Fairfield Sentry. And as I said, includes all 11 of the transfers from BLMIS to -- I'm sorry, from Fairfield 12 Sentry to KEB.</p> <p>13 And on their face, the subsequent transfers at 14 issued looked to be transfers of customer property, as they 15 all took place after Fairfield Sentry's receipt of initial 16 transfers. And I'll just read one quote from your prior -- 17 Your Honor's prior decision --</p> <p>18 THE COURT: Before you go there, give me a second 19 to articulate a question.</p> <p>20 MR. FISH: Sure.</p> <p>21 THE COURT: Because if this is what I've heard -- 22 these transfers aren't to KEB; they're combined, correct?</p> <p>23 MR. FISH: Well, Your Honor, Exhibit B --</p> <p>24 THE COURT: You have 20 transfers and these are in 25 Exhibit C. And is that all to KEB?</p>

Page 186	Page 188
<p>1 MR. FISH: Those are all to KEB, Your Honor. And</p> <p>2 in fact --</p> <p>3 THE COURT: Explain it then to me.</p> <p>4 MR. FISH: Okay. So Defendants in the case --</p> <p>5 there was a defendant who has been since dismissed. It was</p> <p>6 Korea Investment Trust Company. And Mr. Cirillo made an</p> <p>7 argument in his briefing that it's not clear who received</p> <p>8 the transfers because there were two separate defendants.</p> <p>9 But there's really only one defendant left since the</p> <p>10 dismissal of the management company. And it's clear -- an</p> <p>11 din fact, Mr. Cirillo didn't even argue that his clients,</p> <p>12 KEB, did not receive the transfers, because they did. All</p> <p>13 of the transfers --</p> <p>14 THE COURT: So what you're saying is it was a</p> <p>15 management company that got dismissed.</p> <p>16 MR. FISH: Correct. And they were dismissed</p> <p>17 because they didn't receive any transfers, or at least that</p> <p>18 under further investigation we didn't see any. They all</p> <p>19 went to Korean Exchange Bank.</p> <p>20 THE COURT: Okay.</p> <p>21 MR. FISH: So -- and I think Mr. Cirillo would</p> <p>22 acknowledge that his client received all the transfers. And</p> <p>23 so the argument really is that -- you know, he's making the</p> <p>24 same argument that every other defendant has made, that the</p> <p>25 trustee hasn't tied the transfers, the subsequent transfers</p>	<p>1 one paragraph is alleging the avoidability of the initial</p> <p>2 transfers. And as I mentioned, this is the same issue that</p> <p>3 Your Honor has ruled on in probably a dozen cases thus far,</p> <p>4 and this case is no different.</p> <p>5 So unless Your Honor has questions, I will move on</p> <p>6 to personal jurisdiction.</p> <p>7 THE COURT: Please, move on.</p> <p>8 MR. FISH: Thank you. So the totality of the</p> <p>9 circumstances here shows that jurisdiction is more than</p> <p>10 appropriate. All of Mr. Cirillo's arguments, all of KEB's</p> <p>11 arguments regarding the lack of jurisdiction, which are done</p> <p>12 very piecemeal, are abutted by the trustee's allegations and</p> <p>13 the arguments in the trustee's opposition.</p> <p>14 First, KEB individually and as trustee purposely</p> <p>15 availed itself of the privilege of conducting activities in</p> <p>16 the U.S. and New York specifically. The trustee alleges</p> <p>17 that KEB invested in Fairfield Sentry to gain access to</p> <p>18 BLMIS, which is a plausible allegation when taken together</p> <p>19 with the allegation that 95 percent of Fairfield Sentry's</p> <p>20 assets were invested with BLMIS.</p> <p>21 Now, Mr. Cirillo gave us a good recitation of</p> <p>22 Twombly and Iqbal and the standard of plausibility, but the</p> <p>23 allegation in the complaint in Paragraph 5, that defendants</p> <p>24 knowingly directed funds to be invested with New York-based</p> <p>25 BLMIS through Fairfield Sentry, that's a factual assertion</p>
Page 187	Page 189
<p>1 to the initial transfers. But I'll just -- in Multi</p> <p>2 Strategy and Banque Syz Your Honor wrote, "The calculation</p> <p>3 of Fairfield Sentry's customer property and what funds it</p> <p>4 used to make redemption payments are issues of fact better</p> <p>5 resolved at a later stage of litigation."</p> <p>6 And I'll just leave the customer property issue</p> <p>7 with that and I will move on to incorporation by reference</p> <p>8 unless you have any additional questions.</p> <p>9 THE COURT: How much did KEB get?</p> <p>10 MR. FISH: Every transfer on Exhibit C -- and in</p> <p>11 fact, you know, we could delete defendants on that exhibit</p> <p>12 and just say KEB. They got all of those transfers, \$33</p> <p>13 million.</p> <p>14 THE COURT: All right. Go ahead.</p> <p>15 MR. FISH: Sure. So the arguments regarding the</p> <p>16 improper incorporation by reference of the Fairfield</p> <p>17 Complaint, Rule Eight's requirement of a short and plain</p> <p>18 statement have been repeatedly rejected by this Court. And</p> <p>19 for good reason. Because, number one, the district court</p> <p>20 has already found in consolidated proceedings that adopting</p> <p>21 the initial transfer complaint by reference is sufficient.</p> <p>22 This is the same action as the Fairfield action for purposes</p> <p>23 of the bankruptcy court. And there's no concern with</p> <p>24 confusing or inconvenient results, and there's no prejudice</p> <p>25 to KEB. I mean, what the trustee is really doing in that</p>	<p>1 based on the allegation in Paragraph 2 that Fairfield Sentry</p> <p>2 was a BLMIS feeder fund and had virtually all of its assets</p> <p>3 invested in BLMIS.</p> <p>4 It's therefore a reasonable inference to allege</p> <p>5 that the purpose of investing in Fairfield Sentry was to</p> <p>6 gain access to BLMIS. It begs the question why else would</p> <p>7 you invest in Fairfield Sentry if not to get to Madoff?</p> <p>8 There wouldn't be any other reason.</p> <p>9 And in fact, the Second Circuit has even opined in</p> <p>10 the In re Picard case in 2019 when these investors chose to</p> <p>11 buy into feeder funds that placed all or substantially all</p> <p>12 of their assets with Madoff securities, they knew where</p> <p>13 their money was going. And Your Honor has also ruled in</p> <p>14 past subsequent transfer cases that this allegation is</p> <p>15 sufficient.</p> <p>16 So the other issues that Mr. Cirillo has raised, I</p> <p>17 will go through them in order as well. He raised the issue</p> <p>18 of the 2004 private placement memorandum and why that</p> <p>19 private placement memorandum doesn't disclose that Madoff</p> <p>20 was the manager of the fund. And KEB focuses its papers on</p> <p>21 references to BLMIS and Madoff in the PPM, but the PPM does</p> <p>22 disclose that BLMIS holds 95 percent of the funds. And it</p> <p>23 also discusses the split strike strategy. And there's</p> <p>24 numerous references in that PPM, even if you didn't know it</p> <p>25 was Madoff, which is not -- that's not plausible in itself.</p>

<p style="text-align: right;">Page 190</p> <p>1 But even if you didn't, there's all sorts of references to 2 New York. The strategy was centered around U.S. securities 3 and buying S&P 100 stocks. Everything was in dollars, the 4 minimum investment and the initial offering price. 5 Fairfield Sentry maintained United States counsel. The PPM 6 discussed trading risks discussed in U.S. government 7 activities. It discussed Fairfield Sentry -- or I'm sorry, 8 Fairfield Greenwich Group, which was essentially the manager 9 of the fund, with its principal offices in New York. It 10 discussed Fairfield Sentry's intermediary bank in New York, 11 and it has a mention that legal matters in connection with 12 the offering have been passed upon for Fairfield Sentry in 13 the United States by counsel located in New York. 14 So the 2004 PPM, Mr. Cirillo tries to make a 15 distinction with the 2006 PPM. But even if you didn't know 16 that Madoff was running the show, you still had all sorts of 17 disclosures here. 18 THE COURT: Let me interrupt you a minute. You're 19 talking about that. Now, where is that located? What page 20 is that on? 21 MR. FISH: Sure, Your Honor. The 95 percent of 22 the assets under custody being held by BLMIS, that's 23 attached to my declaration as Exhibit 1. And that's on Page 24 15 of the private placement memorandum. 25 THE COURT: Okay. All right.</p>	<p style="text-align: right;">Page 192</p> <p>1 believe the customer claim that Mr. Cirillo submits with his 2 declaration even says they are submitting a customer claim 3 as an indirect investor with BLMIS. And also KEB's 4 reasoning that even though they sought a benefit in the 5 bankruptcy court in this jurisdiction by filing a customer 6 claim, but there's no personal jurisdiction. It just seems 7 like a -- contrary. So, again, the trustee is not alleging 8 that these customer claims automatically confer jurisdiction, 9 but they are a piece of the puzzle. 10 And next I will move to the subscription 11 agreements. And once again, the forum selection clause is 12 one more circumstance showing the New York-centric nature of 13 the investment, that KEB consented to being sued in New York 14 and the application of New York law. And like the customer 15 claimed, we're not arguing that this provision is binding or 16 automatically confers jurisdiction. Rather, it's one more 17 contact that shows that under the totality of the 18 circumstances -- 19 THE COURT: What exhibit is that? Tell me what 20 exhibit that is. 21 MR. FISH: I'm sorry. The subscription 22 agreements. They are attached to Mr. Cirillo's declaration 23 as part of their customer claims. And the subscription 24 agreement -- there's three of them, I believe. And the 25 subscription agreement, there's three of them, I believe,</p>
<p style="text-align: right;">Page 191</p> <p>1 MR. FISH: Okay. The strategy discussing the S&P 2 100 stocks and the split strike strategy, that's on Page 8. 3 And I think there may be some on Page 9. The minimum 4 investment and initial offering prices in U.S. dollars, 5 that's on Pages 1 and 10, I believe. Let's see. The U.S. 6 counsel, located in New York, it's located on VI. The 7 trading risks discussing the U.S. government activities, 8 that's on Page 16. The intermediary bank that's in the 9 United States, that's on Page 13. Fairfield Greenwich Group 10 FGG, maintaining its principal office in New York, that's on 11 Page 6. And the legal matters in connection with the 12 offering that had been passed upon in the United States by 13 counsel located in New York, that's on Page 22. 14 THE COURT: Okay. 15 MR. FISH: So I think there are a number of 16 disclosures. And again, why else would anyone invest in 17 Fairfield Sentry other than to invest with Madoff if it's 95 18 percent invested with Madoff? So the trustee's allegations 19 are more than plausible under any standard. 20 And next I will move to the customer claims that 21 Mr. Cirillo mentioned. But the trustee is not arguing that 22 the customer claims automatically confer personal 23 jurisdiction, but they do add to the totality of the 24 circumstances here, and they show that the investment with 25 Fairfield Sentry was a New York-based investment. And I</p>	<p style="text-align: right;">Page 193</p> <p>1 and the first one starts on -- they're all together, so I'll 2 give you the ECF page number, if that's helpful to you. The 3 first one is on Page 10 of 48 of, I believe it's Exhibit A. 4 Let's see, the second one -- and all of these, I think Mr. 5 Cirillo will agree that these subscription agreements are -- 6 say the same thing. The second one is on Page 32 of 48. 7 This is -- and I'll give you -- the Document Number is 137- 8 1. It's Exhibit A to Mr. Cirillo's declaration. And then, 9 the third customer subscription agreement is Page -- I 10 believe is 137-2, Exhibit B to the declaration. On Page 16 11 of 40 is where it starts. 12 And I can -- you know, I can give you the specific 13 pages of the -- well I can say that -- I can tell you that 14 the forum clause, the consent to New York jurisdiction is on 15 Page -- is Paragraph -- I believe it's Paragraph 19 of the 16 subscription agreements. 17 THE COURT: Okay. 18 MR. FISH: So, we're not alleging that -- or we're 19 not -- we're not arguing that the -- that these subscription 20 agreements, that the forum selection clause automatically 21 confer jurisdiction. But again, it's a piece of the puzzle, 22 and it shows that Korea Exchange Bank had multiple contacts 23 with the forum and purposely availed itself of the benefits 24 and the privileges of doing business in the United States, 25 specifically in New York.</p>

<p style="text-align: right;">Page 194</p> <p>1 And, you know, these subscription agreements also 2 include the New York bank accounts as well. Where to send - 3 - and in fact, this is where to send the redemptions. And 4 we know that they did receive the redemptions. And so, on 5 Pages -- Page 31 of 48 on Document 137-1, that's Exhibit A, 6 and then there's another one on Page 19 -- I'm sorry, 20 of 7 48 on Exhibit A. And then, Exhibit B, Document 137-2, 8 there's another one. It's less easy to read, but it does 9 say Deutsche Bank Trust Americas New York on all of them. 10 This is Page 26 of 40 on 137-2. All of these subscription 11 agreements include a New York bank to receive redemptions. 12 Now, this document doesn't say that this is a 13 passthrough. It says that's where the redemptions are to be 14 sent. And that leads me to the bank account issue, that KEB 15 maintained a bank account in New York at Deutsche Bank 16 Americas, and that's where they received all of the 17 transfers, I believe. 18 THE COURT: Do you happen to have the last four 19 numbers on that account, by any chance? 20 MR. FISH: Let's see, it's -- 21 THE COURT: Not all of it. I purposely don't want 22 all of them. 23 MR. FISH: Yeah, 1033 I think is the account 24 number. 25 THE COURT: The last four digits?</p>	<p style="text-align: right;">Page 196</p> <p>1 Cirillo pointed to, where a defendant was accused of 2 wrongdoing or terrorism, but this is a case where the 3 correspondent account was used for the purpose, really, of 4 which the Trustee is suing. 5 And there's also a case on point, or more on point 6 than the cases KEB cites, that I just want to bring to Your 7 Honor's attention. We cite it in our opposition brief, but 8 it was just decided on May 22, and that's in the Arcapita 9 case. And the District Court in that case affirmed personal 10 jurisdiction where the defendant in the commercial 11 transaction "designated a correspondent account in New York 12 to receive the fund transfers." And even though the debtor 13 chose to use US dollars to effectuate the investment, the 14 Court said that the defendant "could have avoided the United 15 States entirely by routing placements through correspondent 16 accounts anywhere in the world." And this is Bahrain 17 Islamic Bank versus Arcapita Bank. It's 640 B.R. 604. 18 And similarly, KEB voluntarily used the Deutsche 19 Bank New York account to do business with Fairfield Sentry, 20 which by the way also used a New York account, which is 21 disclosed in the private placement memorandum. And nothing 22 was forcing KEB to do business with Fairfield Sentry. 23 Nothing was forcing them to use a New York bank account. 24 They voluntarily entered into these subscription agreements 25 and took these transfers and used a New York bank account to</p>
<p style="text-align: right;">Page 195</p> <p>1 MR. FISH: Right. 2 THE COURT: Okay. 3 MR. FISH: And let me -- I just want to make sure 4 that it's the same account. That's at least what it says on 5 the -- on the subscription agreement. And I've also, Your 6 Honor, I've attached to my declaration some documents as 7 Exhibit 2 and 3, showing the requests for redemption. And 8 they are to go to the same Deutsche Bank Trust Company 9 Americas account. And I believe we've redacted the account 10 information from those. 11 THE COURT: Okay. Make sure you do. All right. 12 MR. FISH: But the documents do include -- so, 13 it's clear that KEB requested redemptions and received 14 redemptions in a New York bank account. And this shows -- 15 these documents show that the use of this account was 16 voluntary and there was an intent to use this account for 17 redemptions. So, that's just to say that the transfers were 18 -- they purposely went through the New York bank account. 19 This is not a situation, as my able adversary has 20 argued, where the -- these bank accounts had nothing to do 21 with the transactions. In fact, I mean, the Trustee is 22 alleging that the transfers at issue in this case, the very 23 transfers, the very subsequent transfers that the Trustee is 24 trying to recover, went through these New York bank 25 accounts. This isn't like some of the cases that Mr.</p>	<p style="text-align: right;">Page 197</p> <p>1 do it. So, even though KEB says that they weren't doing 2 anything illegal or they may not have known of the fraud, 3 these correspondent accounts were part of the scheme, and 4 they received subsequent transfers of customer property. 5 So the -- Your Honor, the totality of the 6 circumstances shows that KEB purposely availed itself of the 7 privilege of conducting activities in the US, and New York 8 specifically. Second, the Trustee's claims arise out of or 9 relate to KEB's conduct in the forum. I don't think that's 10 a dispute. And third, jurisdiction is reasonable under the 11 circumstances, for the same reasons Your Honor has 12 articulated in other subsequent transfer motions that have 13 come before you. And the arguments that KEB makes in its 14 motion are similar to ones that have been rejected in more 15 than a dozen other motions so far. There's no reason to 16 stray from these prior decisions, either factually or 17 legally, and KEB's arguments should similarly be rejected. 18 Thank you. Unless you have any questions, I'll 19 rest, Your Honor. 20 THE COURT: I think I had a few. Mr. Cirillo, 21 any -- 22 MR. CIRILLO: Well, yes, Your Honor, I do have a 23 couple -- 24 THE COURT: Bullet-point rebuttals, please. 25 MR. CIRILLO: I'm sorry, say again?</p>

<p style="text-align: right;">Page 198</p> <p>1 THE COURT: Bullet-point rebuttals, please.</p> <p>2 MR. CIRILLO: Yes, of course. The purposely</p> <p>3 availed point that my -- that Mr. Fish raised, that goes to</p> <p>4 the issue that you have to know that BLMIS was behind</p> <p>5 Fairfield, and there's no basis for that allegation -- for</p> <p>6 that assertion, other than Mr. Fish's statement that why</p> <p>7 else would one invest in Fairfield, except to get to</p> <p>8 Plaintiffs.</p> <p>9 Mr. Fish ranged far from the allegations in the</p> <p>10 complaint, and I will only add this, that as Mr. Fish knows,</p> <p>11 we have explained to him that KEB was only a -- only</p> <p>12 executed the transactions that the manager, now dismissed,</p> <p>13 ordered. It had no obligation to know anything at all about</p> <p>14 the investments, this or any of the other investments, as</p> <p>15 Trustee. So, it is pure conclusory speculation, contrary to</p> <p>16 fact, that KEB knew. And if it didn't know, and there's no</p> <p>17 allegation other than conclusory allegation that it did, the</p> <p>18 knowledge is not sufficient. As I explained, my view is</p> <p>19 that the BLI decision, whatever was in 2012, was effectively</p> <p>20 overruled in 2014.</p> <p>21 Mr. Fish refers to us knowing that KEB knew</p> <p>22 that -- from the PPM that BLMIS held 95 percent of the</p> <p>23 funds. As I explained, being a custodian and holding funds</p> <p>24 -- which many, many broker dealers do for other broker</p> <p>25 dealers, and we know that Madoff or BLMIS was a registered</p>	<p style="text-align: right;">Page 200</p> <p>1 can't be things that they -- well, they are not things --</p> <p>2 and there's no allegation they are things that BLMIS knew --</p> <p>3 that KEB knew when it was investing and redeeming. In fact,</p> <p>4 those customer claims were filed long after, months after</p> <p>5 the world knew. From December 8, 2008, onward, we all</p> <p>6 learned that BLMIS was behind Fairfield. We didn't know it</p> <p>7 until then, but in trying to participate as an indirect</p> <p>8 investor, that it learned it was an indirect investor on</p> <p>9 behalf of its trusts. Of course it alleged what it would</p> <p>10 need. That doesn't have any evidentiary probity.</p> <p>11 The broader issue is that you can't take a bunch</p> <p>12 of zeroes and add up to more. There is no puzzle to be</p> <p>13 pieced together. These are not pieces. And the principal</p> <p>14 argument that I heard several times is that these arguments</p> <p>15 have already been made and rejected. Your Honor, and I</p> <p>16 discussed that at one point during my presentation, my</p> <p>17 argument, and yes, I recognize that there have been</p> <p>18 decisions that have made and -- on some of these arguments</p> <p>19 that have been rejected. However, we have seen over and</p> <p>20 over again that courts can change their minds, and do change</p> <p>21 their minds. And we know that no progress is made in the</p> <p>22 law unless it is viewed from new perspectives.</p> <p>23 The perspectives that I have presented to Your</p> <p>24 Honor are not perspectives that have been presented</p> <p>25 previously. I have been assiduous in keeping track of the</p>
<p style="text-align: right;">Page 199</p> <p>1 broker dealer -- has nothing at all to do with whether it</p> <p>2 knew that 95 percent of the funds were being invested in</p> <p>3 BLMIS on a long-term basis. It only tells them -- and</p> <p>4 certainly does not tell them what Mr. Fish wants to draw</p> <p>5 from it that KEB knew that BLMIS was behind Fairfield</p> <p>6 Sentry. There is no imputation.</p> <p>7 All of the many things that Mr. Fish listed as New</p> <p>8 York-centric events can't be imputed to KEB under Walden.</p> <p>9 It is not part of the totality of circumstances; it is</p> <p>10 irrelevant. The fact that these accounts were passthroughs</p> <p>11 in fact is alleged in Paragraph 5 of the complaint, which as</p> <p>12 I said earlier, talks about -- it says wired funds to</p> <p>13 Fairfield Sentry through a bank in New York and received</p> <p>14 funds through its own bank account in New York. Going back</p> <p>15 to the basic documents that Mr. Fish has identified, Your</p> <p>16 Honor, the subscription agreements, that's how you get money</p> <p>17 from the account, the specified account in Korea to the</p> <p>18 specified account in Ireland, and get it from the specified</p> <p>19 account in Ireland to the specified account in New York.</p> <p>20 Innocent, completely commercial transactions, which the</p> <p>21 three New York Court of Appeals decisions clearly state will</p> <p>22 not support jurisdiction if they are not by a participant in</p> <p>23 an illegal scheme.</p> <p>24 The reference to things that the customer claims</p> <p>25 filed KEB say, like being an indirect investor in BLMIS,</p>	<p style="text-align: right;">Page 201</p> <p>1 filings and the arguments, and I think that whether or not a</p> <p>2 prior decision has been made, it needs to be reviewed on the</p> <p>3 facts of this complaint, on the cases that are cited in</p> <p>4 these briefs, and on the actual content of the documents</p> <p>5 that have been put before the Court in this and other cases</p> <p>6 that are part of the same case.</p> <p>7 That's what I have to say, and I thank you for</p> <p>8 listening.</p> <p>9 THE COURT: Very good, Mr. Cirillo. Mr. Fish, do</p> <p>10 you have anything you wish to add?</p> <p>11 MR. FISH: Your Honor, I'll just add a few things</p> <p>12 here. It wasn't just me who said, why else would anyone</p> <p>13 invest in Fairfield Sentry, if not for BLMIS, but the Second</p> <p>14 Circuit said that in the in re: Picard case, 917 F.3d 85, on</p> <p>15 Page 105 of that opinion. As I said, when these investors</p> <p>16 chose to buy into feeder funds that placed all, or</p> <p>17 substantially all, of their assets with Madoff Securities,</p> <p>18 they knew where their money was going.</p> <p>19 THE COURT: Okay. We've heard you.</p> <p>20 MR. FISH: And Mr. Cirillo makes a -- made a</p> <p>21 comment about KEB maybe not necessarily knowing about Madoff</p> <p>22 and that they were getting instructions. But that's, you</p> <p>23 know, that's an issue for discovery, because you know, KEB</p> <p>24 was investing on behalf of trusts. And under New York law,</p> <p>25 the trustee can't sue the trusts, they can only sue the</p>

<p style="text-align: right;">Page 202</p> <p>1 trustee. That's why they sued KEB individually and as the</p> <p>2 trustee of these three trusts.</p> <p>3 And the subscription agreements specifically state</p> <p>4 that if the subscriber is signing as a trustee or agent or</p> <p>5 nominee or someone else, it still "agrees that the</p> <p>6 representations and agreements herein are made by a</p> <p>7 subscriber with respect to itself and the beneficial</p> <p>8 shareholder." And that's the subscription agreements at</p> <p>9 Paragraph 27. And KEB is very careful about not saying what</p> <p>10 the intent of the trusts were, and we can only surmise as to</p> <p>11 why.</p> <p>12 THE COURT: Very good. We're not surmising today.</p> <p>13 MR. FISH: Right. But I think it's -- the Trustee</p> <p>14 has alleged sufficient facts to confer personal jurisdiction</p> <p>15 in this court.</p> <p>16 And also, I also wanted to just go back to</p> <p>17 something that Mr. Cirillo mentioned about the Trustee not</p> <p>18 needing to allege facts. That's not what we argued in our</p> <p>19 opposition. In fact, we were citing a couple of Your</p> <p>20 Honor's opinions in Bank Lombard Odier and Banca Carige,</p> <p>21 where I think the quote was, "At the pre-discovery stage,</p> <p>22 the allegations need not be factually supported." In other</p> <p>23 words, this is not a summary judgment motion. This is a</p> <p>24 motion to dismiss, and the Trustee has alleged sufficient</p> <p>25 facts, both under Rule 12(b)(2) and 12(b)(6).</p>	<p style="text-align: right;">Page 204</p> <p>1 MR. LANDSMAN: Good afternoon, Your Honor. My</p> <p>2 name is Zeb Landsman, and I represent Sumitomo, and I'm with</p> <p>3 the law firm of Becker, Glynn, Muffly, Chassin & Hosinski.</p> <p>4 MR. SONG: And good afternoon, Your Honor, Brian</p> <p>5 Song, Baker Hostetler, on behalf of the Trustee.</p> <p>6 THE COURT: Very good. I believe this is your</p> <p>7 motion to dismiss, Mr. Landsman.</p> <p>8 MR. LANDSMAN: It is. Thank you, Your Honor. I</p> <p>9 am going to be quick, less than 10 minutes, hopefully five,</p> <p>10 if I can.</p> <p>11 THE COURT: You're very kind to a judge that's</p> <p>12 been sitting all day.</p> <p>13 MR. LANDSMAN: You're welcome. I'm going to limit</p> <p>14 my argument to just one of the points that I raised in the</p> <p>15 motion, and that's Sumitomo's 8(a) argument.</p> <p>16 Rule 8(a) is simple. It requires plaintiffs to</p> <p>17 include a short, plain statement showing that the pleader is</p> <p>18 entitled to relief. Here, in this case, the Trustee needs</p> <p>19 to allege two things: one, that there was an initial</p> <p>20 transfer from BLMIS to Sentry that is avoidable, and two,</p> <p>21 that the Sentry -- that Sentry subsequently transferred</p> <p>22 those funds to Sumitomo.</p> <p>23 The Trustee certainly gave us fair notice of the</p> <p>24 second drop. He clearly identified the subsequent transfer.</p> <p>25 In Paragraph 40 in Exhibit D, he clearly alleges, simply and</p>
<p style="text-align: right;">Page 203</p> <p>1 And with that, Your Honor, I'll rest.</p> <p>2 THE COURT: Thank you.</p> <p>3 MR. CIRILLO: Your Honor, two words, or two</p> <p>4 briefly --</p> <p>5 THE COURT: You had your rebuttal, so quick. That</p> <p>6 was his --</p> <p>7 MR. CIRILLO: Well, I'm the movant, so he had his</p> <p>8 -- this is our answer. First, Your Honor didn't</p> <p>9 misunderstand Dorchester. Dorchester says you need facts</p> <p>10 and factual allegations. It's the fact allegations that are</p> <p>11 missing here, and that's what Dorchester said, and that's</p> <p>12 what Your Honor cited in the part that Mr. Fish just quoted.</p> <p>13 Secondly, why else would they invest? Well, the</p> <p>14 Second Circuit didn't purport to know why KEB acted, and</p> <p>15 Mr. Fish doesn't know why KEB acted. I mentioned the fact</p> <p>16 it was a Trustee taking orders simply because he had</p> <p>17 continually referenced the "why else would they invest"?</p> <p>18 There are lots of reasons why these trusts would be there,</p> <p>19 and the Court can't speculate about --</p> <p>20 THE COURT: You've both been heard. You have both</p> <p>21 been heard.</p> <p>22 MR. CIRILLO: Good. I'm done; thank you.</p> <p>23 THE COURT: 11-02573, Trustee Picard versus</p> <p>24 Sumitomo Trust and Banking Company, state your name and</p> <p>25 affiliation.</p>	<p style="text-align: right;">Page 205</p> <p>1 precisely, that \$54,253,642 was transferred on October 16,</p> <p>2 2007, from Sentry to Sumitomo. He did that perfectly. The</p> <p>3 problem, Your Honor, is with the first prong.</p> <p>4 Rather than identifying an initial transfer that</p> <p>5 is avoidable, he simply attached a 77-page list of thousands</p> <p>6 of transfers, totaling billions of dollars, spanning years.</p> <p>7 That's his Exhibit C, and if you look on Page 6 of our</p> <p>8 brief, I have a sample of that. It's as if a plaintiff,</p> <p>9 Your Honor, brought a breach of contract claim and alleged</p> <p>10 that the defendant failed to perform on a particular day.</p> <p>11 But then, rather than identifying the contract that was</p> <p>12 breached, he listed hundreds of contracts and simply said,</p> <p>13 you breached one of those. Figure it out. Or, if I were</p> <p>14 accused of running a red light on a particular day that's</p> <p>15 identified, and then the complaint listed every intersection</p> <p>16 in the city, I wouldn't be able to answer the complaint. I</p> <p>17 wouldn't be able to prepare for trial.</p> <p>18 In the red light example, I'd have to take</p> <p>19 discovery on every traffic signal, seek thousands of records</p> <p>20 from the cameras, seek out potential witnesses to prove the</p> <p>21 plaintiff may have stated a claim, but it's also made it</p> <p>22 impossible to prepare for trial. Sumitomo is in that</p> <p>23 position. The Trustee will have to prove that there is an</p> <p>24 initial transfer that is avoidable. We have the right to</p> <p>25 seek discovery about that initial transfer to determine</p>

<p style="text-align: right;">Page 206</p> <p>1 whether it really happened. He's given maybe documents, but 2 we get discovery on whether it really happened and whether 3 it is avoidable. 4 We have the right to craft a defense based on 5 which initial transfer the Trustee plans to use at trial, 6 and it's not too soon to require the Trustee to identify 7 one. We need to answer the complaint and start discovery 8 now. We need to gather evidence about the alleged initial 9 transfer now. But we can't. 10 Without more specifics from the Trustee, we'll 11 have to seek discovery about those hundreds of transactions 12 listed in Exhibit C. We'll have to show up at trial without 13 knowing which transaction constituted the alleged initial 14 one. We'll have to wait for trial for him to tell us 15 whether the initial transfer was within the two-year 16 lookback period or not. We don't know. And that's because 17 our subsequent transfer was within the two-year lookback 18 period, but he hasn't told us if the initial transfer was, 19 and that will affect our defense. 20 And it's particularly unfair here to keep Sumitomo 21 in the dark, because Sumitomo was a stranger to that initial 22 transfer. It has no direct knowledge of it. Unlike the 23 Chase case that they mentioned, all of that information is 24 with the Trustee and the records he has. We don't know 25 anything about the initial transfers because we weren't a</p>	<p style="text-align: right;">Page 208</p> <p>1 with the Debtor, which we have done that. No tracing 2 analysis is required, and the pleading burden is not so 3 onerous as to require a dollar-for-dollar accounting of the 4 exact funds at issue. That's because money is fungible, 5 Your Honor, and as, you know, Defendant here is claiming 6 that they won't know until trial, I think that's also a 7 misapprehension of what the burdens are here. 8 We are about to get into discovery, and I agree 9 with my -- with my adversary here that it is important to 10 get into these issues. But that is precisely what discovery 11 is for. And the Trustee's experts, once they've had the 12 opportunity to participate through discovery, will issue an 13 expert report, which will show the tracing and the flow of 14 funds from the initial -- from BLMIS to Fairfield Sentry and 15 to Sumitomo. They will not be surprised at trial. We will 16 have this throughout the discovery process. 17 This Court has already discussed and knows very 18 well that the Trustee only needs to plead the necessary 19 vital statistics, and we have done that, and that that is 20 all that is required, and that's what we have done. 21 Thanks, Your Honor. 22 THE COURT: Okay. Mr. Landsman or Mr. Song, 23 anything else you wish to add? 24 MR. LANDSMAN: Yes, just two quick replies to 25 that.</p>
<p style="text-align: right;">Page 207</p> <p>1 party. It was between BLMIS, in whose shoes the Trustee 2 stands, and Sentry. And the Trustee has had access to that 3 information for years, yet he still refuses to identify the 4 basis for his claim that there was an initial transfer 5 that's avoidable. 6 The Trustee needs to comply with Rule 8(a), and 7 Sumitomo cannot answer the complaint or prepare for trial 8 unless he does. And that's why we respectfully request that 9 you dismiss the complaint and perhaps give him leave to 10 amend it, but dismiss the (indiscernible) so we can properly 11 answer it. 12 THE COURT: Thank you, Mr. Landsman. Mr. Song? 13 MR. SONG: Thank you, Your Honor. I will address 14 it briefly as well, as it has been a long day for all of us. 15 The Defendant's argument here is based on the 16 faulty premise that the Trustee is required, here at the 17 pleading stage, to identify and specify the exact initial 18 transfer to Fairfield Sentry, from which the subsequent 19 transfer to Sumitomo flowed. Defendant would thus create 20 some entirely new pleading burden, wherein the Trustee would 21 be required to essentially do a dollar-for-dollar tracing 22 analysis at the outset of the case. 23 This Court has already held that to plead a 24 subsequent transfer claim, the Trustee must allege facts 25 that support an inference that the funds at issue originated</p>	<p style="text-align: right;">Page 209</p> <p>1 THE COURT: Okay. 2 MR. LANDSMAN: He doesn't need any discovery from 3 us because we don't have any discovery on that question 4 about which is the initial transfer. We know nothing about 5 it. We got the subsequent transfer; we'll give him 6 discovery about that. But to identify the basis for his 7 entire claim, he needs no discovery from us. 8 So what he's saying is, we now need to go take 9 discovery on those hundreds of transfers and take 10 depositions on those hundreds of transfers, because he can't 11 even narrow it down to a smaller set. We're not asking him 12 for tracing. We're asking, just tell us what the initial 13 transfer was. 14 THE COURT: Okay. Understand. Anything else? 15 I thank everyone for their patience and your 16 kindness all day long. I hope that you have a lovely 17 evening. And you will receive a written opinion. 18 MR. LANDSMAN: Thank you, Your Honor. 19 MR. SONG: Thank you, Your Honor. 20 THE COURT: Thank you. 21 22 23 (Whereupon these proceedings were concluded at 24 3:54 PM) 25</p>

CERTIFICATION

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I, Sonya Ledanski Hyde, certified that the foregoing transcript is a true and accurate record of the proceedings.

Sonya M. Ledanski Hyde

Sonya Ledanski Hyde

Veritext Legal Solutions
330 Old Country Road
Suite 300
Mineola, NY 11501
Date: September 19, 2022

&	10/19/2022 5:13	162:18 164:24	156 50:16
& 15:17 36:13	7:6	167:4 168:24	16 56:20,23
112:6 204:3	100 125:7 190:3	172:4 184:16	121:12,13
0	191:2	202:25,25	134:15 191:8
007 30:19	10004 3:25	12-1693 21:9	193:10 205:1
03635 16:25	10006 15:21	12151 210:6	16.2 56:6
08-99000 1:3	10009 15:13	122 45:4	161 180:9
1	10016 14:15	1258 157:24	162 42:11
1 5:21 6:14,14	10019 13:25	1290 14:6	164 136:2,8
7:15 8:9,9 11:20	10020 15:5	12th 19:14 23:2	166 66:9 84:4
12:1 132:17	1004 7:4,8	23:10	167 184:11
133:3,7,13	1005 6:21	13 46:23 156:12	16th 179:6
134:1,1 136:8	1006 8:2,7	191:9	17 85:11 134:18
136:10,19,23	1007 7:24	130 125:17	141:3,11 174:3
137:4,6,14	10104 14:7	1301 15:12	172 135:17
138:10 139:3	10111 13:6	135 11:13	177 136:2,8
140:4,21 147:13	10166 13:17	125:20	18 132:1
147:24 149:4	10171 14:22	137 193:7	181 135:17
151:8 160:16	1033 194:23	137-1 194:5	19 9:22 83:7
161:22 173:9	105 201:15	137-2 193:10	193:15 194:6
190:23 191:5	10:00 5:13 6:10	194:7,10	210:25
193:8	7:6 8:4 9:16	138 179:5	190 147:11
1.2 104:6	10:2 12:2,11	14 4:1 18:19	1970s 134:18
1.25 99:5,16	10:02 4:2	24:11 44:17	1985 87:1
10 75:9,16 81:18	11 95:24 96:3	85:11 156:6	1997 157:24
167:18 168:3,8	169:3	163:14 169:2	19th 33:4 35:10
191:5 193:3	11-02572 2:24	140 11:11 84:20	1c1260 147:2
204:9	11:8 154:7	141 129:11	1st 18:19
10-03635 1:11	11-02573 3:10	143 170:4	2
5:1 16:4	12:5 203:23	144 11:23 50:17	2 5:22 6:15,15
10-03636 1:19	1125643 137:10	145 11:18 179:6	7:16 8:10,10
6:19 16:4	11501 210:23	14th 19:14	23:8,16 49:6
10-04285 2:2	117 120:24	15 26:22 68:24	88:21 157:6
8:14 36:8	119 12:9	68:24 75:9,16	158:10,18,24
10-05345 2:13	11th 19:12 23:17	81:18 134:13	159:2,5,23
10:12 124:11,18	162:9	141:3 152:22	160:10,12
10-05358 123:15	12 44:2 49:6	170:5 179:7	162:17 163:4
10-3545 124:9	57:16 103:3	190:24	164:24 166:1,3
	131:22 159:17	155 51:5	166:12 167:5
	161:16,19		168:1,4 169:8

[2 - 3:54]

Page 2

172:4 184:16 189:1 195:7 202:25 20 180:21 185:24 194:6 200 13:16 2004 55:22 84:21 97:12 173:2,9,22 189:18 190:14 2005 98:18 125:18 130:1,9 131:23 2006 47:19 55:22 56:1,6 63:22 64:11,14 90:23 91:12 121:13,14 173:6 190:15 2007 26:19 28:3 79:10 132:1 168:10 205:2 2008 28:7 47:20 63:23 98:20 125:19 126:18 126:20,21 128:1 129:3,7,9 130:5 130:9 146:17 200:5 2010 23:11,11 27:21 28:8 157:17 167:22 168:12 170:21 2012 44:11,15 163:14 174:21 180:21 198:19 2013 125:20 171:25 180:9 2014 50:3 174:3 175:1 198:20	2015 54:6 121:23 2016 22:7 170:19 180:22 183:24 2018 184:12 2019 189:10 2021 18:17,19 141:16 2022 4:1 9:22 137:10 210:25 2022.05.06 5:22 7:16 2022.07.14 5:22 7:16 2022.07.21 5:25 6:1 7:19,20 2022.07.28 6:3 7:21 2022.08.05 6:1 7:20 207 183:23 210 54:10 214 146:15 21830 21:9 219 141:16 22 64:14 77:4 185:6 191:13 196:8 221 84:4 222 10:14,22 11:4 224 138:20 231 10:20 232 50:23 234 11:3 22:9 50:22 235 51:21 246 14:14	247 50:20 24th 20:4 25 24:2,14 27:7 25th 146:16 26 18:18 25:21 32:6,25 194:10 265 66:20 269 9:25 27 202:9 271 9:20 274 9:13 275 147:11 277 174:12 28 180:21 281 10:8 283 10:7 28th 19:14 29 96:23 290 8:17 10:7 295 9:8 10:7 296 10:7 299 14:21 2d 84:20 170:20 180:9 3 3 5:24 6:15,16 7:17 8:10,11 53:18,18 136:1 156:25 158:20 158:23 159:10 159:22 160:2,9 160:10 162:24 162:25 163:2,13 163:25 165:25 166:4 195:7 3.3 27:6 3.9 26:19 30 5:24 6:2 7:18 7:21 19:19 25:10,14 27:19	29:9 31:13 33:4 33:8 125:21 300 111:11 130:7,12,23 210:22 301 142:1 146:20 147:3,4 147:19 148:21 302 9:11 307 10:5 30th 19:9,14 31 13:24 194:5 316 180:22 318 22:8 32 56:8,19 121:10,14 193:6 32.8 55:20 320 84:20 327 180:21 33 55:18 158:23 159:22 160:2 163:24 187:12 330 210:21 332 70:3 333 53:19 55:1 71:17 183:24 337 53:19 71:17 99:15 33rd 14:14 340 116:12 36 33:3 3635 17:1 3636 17:1 37 21:20,21 22:15 25:3 3800 168:11 39 180:20 391 180:20 3:54 209:24
--	--	---	---

[3d - ability]

3d 183:24	528 141:15	202:25 205:7	167:5 168:1,4
4	52nd 13:24	6/15/2022 10:2	169:8 170:3
4 5:25 6:16,16 7:19 8:11,11 136:2	53 135:17	6/17/2022 9:18	171:18 183:10
4.2 54:18	54,253,642 205:1	60 126:21 129:3 129:6,14,15 141:6,11	184:16 191:2 200:5 204:15,16 207:6
4.4 131:23	543 170:19	604 196:17	80 15:11
4.5 77:15,20 94:11	546 49:10,18,19 52:22 105:17 106:4 125:22 155:15	61 98:18	8012 170:7
40 83:6 126:21 130:10 193:11 194:10 204:25	548 127:16 132:17 133:3,7 133:13 134:1,1 136:10,19,23 137:4,6,14 138:10 139:3 140:4,21 147:13 147:24 149:4 151:8 153:21	610 170:20	83 102:15
400 170:19	550 55:11 114:17 122:2 125:3 130:12 131:8	62 134:13,21 141:3	84-85 171:25
405 170:21	568 142:12	64 141:6,11	85 201:14
411 170:19	571 174:12	640 196:17	882 161:19
44 136:2	59 141:6,11	65 134:21 141:6 141:12	89 77:9
446 157:16 167:21 168:12	594 184:11	66 134:13 141:3	892514 163:13
45 13:5 136:2	5th 19:14	67 135:3,23 136:8 141:9	9
475 146:15 147:6,18,18	6	670 157:16 167:22 168:12	9 85:11 95:25 96:3 170:3 183:10 191:3
48 193:3,6 194:5 194:7	6 5:24 6:2 7:18 7:21 19:19 24:12 25:10,14 27:19 29:9 31:13 33:4,8 44:2 57:16 103:3 159:17 161:16,19 162:18 164:24 167:4 169:21 184:16 191:11	68 61:23	9/14/2022 6:9 8:4 9:16 12:10
481 142:12		69 97:4 100:4 120:8	9/7/2022 10:17 12:2
485 138:20		691 170:20	917 201:14
49 46:10		6th 20:9	92 89:5 98:20
5		7	938 5:11,15
5 6:1 7:20 135:16 157:3 159:11 162:23 169:21 188:23 199:11		7 2:6,17 3:3,14 21:9	939 5:4
5/5/2022 12:9		7/1/2022 10:18	940 6:8,12
50 15:4 23:20 26:20,23		70 129:10	941 6:5
500 27:16		7007-1 25:22	95 188:19 189:22 190:21 191:17 198:22 199:2
505 125:20		722 171:25	950 157:23
515 120:23		732 180:9	97 54:13
		74 18:24 24:1	a
		768 45:4	abbreviations 45:18
		77 205:5	ability 20:21 21:19 98:4
		8	
		8 83:8 118:20,23 162:17 164:24	

99:13 114:12 able 20:11 28:11 60:10 117:6 142:8,23 195:19 205:16,17 abn 130:21 abroad 39:23,24 67:7 72:7 absence 50:1 52:20 87:12,19 120:13 132:3 165:24 166:14 178:15 absent 71:19 156:8 absolutely 68:2 99:3,11 absorb 67:25 abutted 188:12 academy 96:16 accept 111:11 127:10 138:17 acceptable 167:4 accepted 167:13 accepting 152:18 access 8:19,19 8:20,21,23 15:3 19:5 37:5,9,10 37:11,11,12,13 51:19 57:23 61:18,24 62:10 62:12 65:2 70:8 72:13,15,16,24 73:3,8,8,9,10 74:12 75:6,6,8,9 75:11,14 76:1 76:12,14,18,20 76:21 77:16,21	78:4,5,16 79:7 80:22,23 81:14 82:1,24 83:6,21 84:5,6,16,25 85:10 86:5,6,7,8 86:9,13,18,19 86:20 87:3,9,10 87:13,14,16,17 87:20,23,23,24 87:25 88:5,6,8 88:10,10,11,12 88:12,14,17,20 88:23 89:3,5,7,9 89:13,17,20,22 90:5,9,20,22,24 91:2,3,18,22 92:10,15,16 93:9 94:6 95:2,5 96:7 97:14,21 98:4,13 99:2,8 100:11,15,24 101:4 104:9,11 105:9,9 106:21 108:9,15,17,19 108:21 109:1,3 109:7,14,23 110:9,11,21 112:5 115:16,18 119:19 122:12 188:17 189:6 207:2 access's 98:5,18 104:20 110:5 accidentally 22:2 accomplish 168:18 182:9 accomplished 151:12 168:5	account 39:16 43:5,7,11,12 61:11 66:22 119:5 132:21 134:23,23 135:19 141:8 143:5,6,7,10,11 143:12 144:1,8 144:11,13,16,25 145:17 146:16 146:18 147:1 151:17 180:2,3 181:1,3,3,6 182:9 194:14,15 194:19,23 195:4 195:9,9,14,15 195:16,18 196:3 196:11,19,20,23 196:25 199:14 199:17,17,18,19 199:19 account's 144:11,13 145:18,19 accountable 67:8 accounting 45:23 61:11 208:3 accounts 43:16 76:23 83:20 90:25 95:23 118:5 134:17 143:23 179:23 180:4,13,13 194:2 195:20,25 196:16 197:3 199:10 accuracy 86:11	accurate 210:4 accurately 122:14 146:2 accused 196:1 205:14 acknowledge 183:7 186:22 acknowledges 52:21 127:8 179:24 acronym 55:19 acronyms 40:7 act 23:7 111:4 160:16 172:16 acted 39:13 61:5 87:13 90:3 100:7,25 109:5 109:13,15 114:23 122:10 160:18,20 203:14,15 acting 76:24,24 81:7,8 106:21 108:20 112:15 action 28:8 44:13 54:7 81:24 88:2 160:20 161:2,6 165:9 184:15 187:22,22 actions 19:6 60:17 63:8 80:1 86:23 107:19 109:22 157:14 184:23 active 66:24 181:6,14 182:16 actively 65:18 107:14
--	---	---	--

[activities - affidavit]

activities 21:3 38:24 41:25 43:13,15 46:4 59:7 60:1,17 63:25 66:25 91:7 138:3 155:10 172:18 172:19 177:14 182:22 188:15 190:7 191:7 197:7 activity 42:9,9 63:23 104:20,22 104:23 107:17 110:6 112:24 174:15,15 176:19 177:4 actual 49:16,21 49:23 52:8,11 52:20,23 82:11 99:19 102:8 103:11 106:10 107:1 108:1 111:13,18,20 114:8,11 120:10 120:21 121:5,23 127:18 128:21 133:2 134:2,8 139:9 140:13 148:3 171:16 201:4 acuity 184:4 add 71:7 93:6 96:6 150:14,14 153:23 159:7,10 159:11 163:16 183:13 191:23 198:10 200:12 201:10,11 208:23	adding 163:15 183:14 addition 9:21 additional 26:12 32:3 73:22 104:10 187:8 additionally 61:7 63:25 66:18 119:13 144:2 149:2 address 18:3 22:23 26:9,11 49:9 57:3,11,15 57:18,19,25 58:2 71:13 72:25 82:16 103:4 106:7 108:25 133:22 136:13 141:23 146:5 150:1 155:23 160:4 163:19 174:5 207:13 addressed 44:9 49:10 90:25 97:3 103:10,18 106:5 144:20,23 174:18 addresses 21:20 96:1 addressing 17:16 103:10,18 103:23 adds 164:21 adequately 49:14 88:9 106:8 118:23 141:19 ader 157:23	adjourn 12:10 adjourned 10:2 37:21 adjournment 9:20 adjudicate 177:23 adjudicative 175:4 adler 16:6 administered 74:11 administration 61:20,25 66:7 administrative 46:2 60:21 62:10 74:15 administrator 45:21 46:3 47:9 47:13 61:5 62:8 112:25 116:22 admissions 157:20,22 159:19 admit 175:25 admits 75:7 115:14,15 158:21 162:23 admitted 61:22 62:1 70:13 108:13 158:4 166:1,1 adopted 105:24 adopting 187:20 adv 1:11,19 2:2 2:13,24 3:10 advance 132:13 advantage 183:20	adversary 5:1 6:19 8:14,17 9:11,22 10:12 10:14 11:8,23 12:5 16:4 21:8 124:9,18 178:1 178:5,8,9,14,16 178:25 179:1,9 179:14 195:19 208:9 adverse 22:1 149:19 advisement 65:14 advising 68:5 78:12,16,17 79:13 90:1 advisor 78:8 79:9,11,21 89:12 90:1,4,5,6 104:10,21 108:22 109:15 173:6 advisors 8:19,20 8:21 37:11,13 73:8,10 75:14 76:21 78:5 86:7 86:10,19,20 87:24,25 88:7 88:12,13 89:9 89:13 115:19 advisory 37:10 48:12,15 64:17 64:22,25,25 65:7,8,10,15 74:15 78:8,8 79:2 affect 206:19 affidavit 75:10 81:16 82:8 83:7
--	--	--	---

[affidavit - alleged]

Page 6

92:22 affiliates 112:15 112:17,21 165:1 affiliation 16:7 36:11 123:17 154:8,10 203:25 affirmative 99:20 101:10 122:18,21 149:5 149:13,22 150:4 affirmatively 101:14 affirmed 21:16 196:9 afternoon 96:11 123:18,20 154:9 154:13 204:1,4 ag 2:10 8:15 9:14 16:6 36:8 36:17 41:23,23 42:10,12,16 43:2,9,20,24 44:8,9,10,13,18 45:2,11 53:13 53:22 54:1,18 55:12 58:14 59:21 64:1,2 65:20,21,23 66:15,18,24 67:19 69:11,19 70:1,9,15,17,19 70:20,25 71:1 71:16 84:20 112:22 113:2,21 114:1 115:7,15 118:18 121:24 ag's 66:21 agency 48:7,23 85:5	agenda 36:7 agent 48:21,22 61:8 77:8 81:8,8 85:7,12,14 89:11 202:4 agents 106:20 107:3,13 109:21 119:23 ago 16:19 17:9 33:24 55:2,5 154:22 agree 29:23 122:22 152:16 193:5 208:8 agreed 34:22 agreement 64:14,17,22 65:6 125:24,24 126:4 145:25 180:1 192:24,25 193:9 195:5 agreements 78:8 78:9 117:5 143:12 151:9,10 151:12,15 175:22 180:5 192:11,22 193:5 193:16,20 194:1 194:11 196:24 199:16 202:3,6 202:8 agrees 202:5 ahead 28:21 187:14 aia 77:4,17 78:6 78:6 84:5,16,16 85:10 87:17 88:2 115:17,18 115:18	air 36:1 al 1:13,16,21,24 2:10,21 5:2,3 6:20,21 8:16 10:13 41:21 47:17 alain 9:24 allegation 42:3 43:24 47:4 53:13,25 70:20 71:15,20 93:16 93:17 99:19 100:6,22,25 101:10 104:17 108:3 111:18 121:23,25 122:3 122:17 131:23 132:4 158:13 161:18 165:10 165:24 166:8 167:2 170:1,3,8 170:10 174:12 179:24 181:8 188:18,19,23 189:1,14 198:5 198:17,17 200:2 allegations 39:20 47:20,21 48:14 52:5,6,12 52:14,18 53:3 55:15 58:22 59:5,12 61:1,2 68:13 70:25 71:1 72:3 75:8 79:12,19 86:12 89:6 98:16 100:2,4,5,8 101:19,22 102:9 102:9 103:11 105:7 106:14,25	107:22,24 108:1 108:2,4,7,8 110:20,24,25 111:17,17 113:1 113:6 114:8,16 116:18 117:7,12 117:23 118:3,18 118:19 120:24 121:3 133:6,25 135:8 136:9,16 141:13 152:13 158:21 159:18 162:3,10,16 164:20 166:16 167:2 168:17 169:5,20,22 170:13,23 171:3 171:7,11 172:4 172:5,8,10,11 172:25 175:19 175:20 183:9,10 188:12 191:18 198:9 202:22 203:10,10 allege 20:23 42:8 53:15,24 66:8 70:1 104:7 104:14 105:8 132:7 139:16 155:8,10,24 156:3 158:16 159:9 160:18,24 161:2 162:19 165:9 189:4 202:18 204:19 207:24 alleged 21:5 38:15 39:12,15 41:24 42:1,6,16 43:9 45:21 46:4
--	--	--	---

[alleged - appeals]

46:7,17,24 47:7	109:11,23,25	77:10 97:20,20	128:16 152:12
47:15,18 48:2	110:21 111:8,21	98:17,19 99:16	153:9 182:23
50:18 55:7 59:1	134:9,11,14,22	99:20 100:1,6	207:22 208:2
63:2 66:19	135:10,13,14,17	100:22,25 101:7	analyze 100:9
67:20 70:10,14	135:24 136:3	101:23 102:14	answer 19:21
70:16,18 72:4	139:12 140:22	114:23 121:22	25:12 26:13
78:7 82:7 87:22	140:25 141:1,4	126:19 146:14	30:25 31:2 57:2
90:19 93:4	141:7,9,19	america 10:16	61:20,23 67:24
97:19 98:8,18	156:5,18,24	11:6 15:19 45:4	68:9 70:12,13
104:4,14,19	157:1,11 162:23	123:22 170:20	72:9 73:16
106:22 108:4	188:16 204:25	american 96:16	98:12 103:25
118:9 119:1	alleging 48:8,20	168:11	108:12,13 113:4
120:16 127:24	50:23 86:17	americans 182:2	115:14 203:8
132:15 133:1	113:6 114:11,22	americas 14:6	205:16 206:7
134:4,6,12,15	115:6 161:24	194:9,16 195:9	207:7,11
134:18,21 135:2	188:1 192:7	amigo 180:19	answered 26:14
135:16,23 136:1	193:18 195:22	182:4 183:6	69:5
136:8 141:3,6,8	alliance 139:20	aml 79:13 83:7	anthony 8:18
141:11 155:7	allow 57:2	amount 54:15	15:7 37:4 72:14
157:3 158:8,18	121:16 171:12	54:15,16 70:21	anti 109:24
160:21 161:10	allowed 143:20	83:1 92:2 99:1	anybody 176:17
161:17 162:6	171:8	104:7 107:25	anymore 57:10
164:4 166:1	allowing 167:24	108:1 118:20	anyway 56:18
169:4 173:18	168:7	126:10,13 129:8	ap 79:8,12,15,21
177:16 179:21	allows 109:18	130:10,24 144:7	83:7 115:17
181:7 182:12,15	134:1 137:18	164:7 185:10	apologies 58:7
182:16 185:2,8	178:11	amounts 53:23	68:7 103:20,22
199:11 200:9	alongside 64:21	54:21 71:19	124:15
202:14,24 205:9	alternative	116:10 144:9	apologize 26:24
206:8,13	110:17 130:6	164:19	105:11,14 115:9
allegedly 48:12	altogether 57:21	amro 130:21	123:7,11 124:16
97:1 125:7	amend 12:9 54:7	amy 14:10 17:14	apparent 46:13
128:1	155:22 207:10	17:20	46:21
alleges 42:10	amended 6:2,16	analogous	apparently
48:3 54:24	7:20 8:11,18	178:23	42:22
55:18 63:3 77:2	9:12 10:7 11:23	analysis 100:10	appeal 133:15
86:25 87:19	39:11 50:12,24	100:12,14	appeals 180:11
90:18 91:14	53:19 54:8 55:4	104:21,25 105:5	180:17 181:18
99:5 101:8	55:7 56:2 59:4,8	106:16 110:10	181:22 183:4
107:5,16 108:19	66:8,20 67:21	110:10,11	199:21

[appear - assert]

Page 8

appear 24:2 110:8	104:17 126:13 140:10 163:22	argument 12:10 24:20 26:2 30:2	129:18 132:14 132:25 136:13
appearance 36:23	170:2 188:10	43:1,19 44:14	139:1 141:24
appearing 20:17 154:11	appropriately 46:16,18	45:7,7,12,14	146:5,8 148:4
appellate 138:13 180:22	approve 114:5	48:8 51:17 52:1	150:8,17,23
applicability 52:22 133:12	approved 114:1	56:16,17 57:12	155:18,20 158:6
applicable 49:19 66:10	approving 66:19	57:23,24 58:20	167:10 184:22
application 125:22 192:14	approximate 164:6	60:2,12 81:12	184:25 187:15
applied 136:21 136:25 143:25	april 126:20 128:1 129:3,7	97:3 99:24	188:10,11,13
applies 161:20 179:16	arbitrators 177:7	101:2,17 103:8	197:13,17
apply 103:16 128:6 152:16	arcapita 196:8 196:17	111:3 116:1	200:14,18 201:1
162:20 164:1	area 180:19	121:19 123:24	arisen 73:2
177:17 178:13	argue 58:10 80:24 86:12,22	128:18 129:24	arises 125:6
181:23	118:2 132:14,19	131:15,17 133:8	arising 138:17
applying 151:7	132:22 134:3	133:20,23	arithmetic 51:24
appointment 112:5	137:17 138:8	136:18 137:4	arithmetically 164:21
appreciate 29:24 33:19	148:19 159:21	139:18 142:4,6	articulate 184:21 185:19
40:8 120:9	167:7 186:11	142:7,10,13,14	articulated 197:12
150:20 154:19	argued 20:22 46:24 171:2	142:19 143:3	articulates 53:22
156:16 184:13	195:20 202:18	145:6,11 146:6	aside 54:22 133:10,17
apprise 119:6	argues 23:24 24:17 44:10	146:12 147:10	asked 18:17,25 19:9,13 20:4
apprising 118:24	49:20 65:17	147:23 149:1,10	24:8 33:23,23
approach 52:6 163:9 164:1	85:8 89:3 90:15	150:11,24 152:1	97:13 104:21,24
approaches 163:22 164:5	100:1 182:10	153:6 159:15	112:10,13,14
appropriate 28:5 29:25 59:3	arguing 43:14 48:10 58:12	165:4,13 175:12	151:20 160:25
	86:4 115:22	176:2 186:7,23	asking 25:4,10 26:15 28:10,11
	127:6 133:15	186:24 200:14	69:11 98:22
	137:13 146:1	200:17 204:14	168:15,16
	153:10 155:17	204:15 207:15	209:11,12
	167:9 191:21	arguments 22:4 48:24 57:1,12	asks 21:21
	192:15 193:19	57:18,20 67:1	aspect 94:3
		73:1,3 85:5,24	assert 46:21 62:15 72:9
		95:18 96:14,20	
		98:10,23 102:21	
		103:2,4 105:16	
		105:20,23,24,25	
		106:4,7 110:17	
		114:15 115:25	
		123:1 128:25	

[assert - b]

Page 9

<p>117:22 asserted 45:14 59:7,17 62:15 179:21 assertion 47:8 50:25 171:15 188:25 198:6 assertions 170:23 asserts 81:11 assess 40:1 asset 11:20,25 46:1 62:3 173:23 assets 77:5 89:14 115:13 118:13 128:11 135:16 173:14 174:1 188:20 189:2,12 190:22 201:17 assiduous 200:25 assignment 100:9,10 assist 119:21 138:14 assistance 22:17 assisted 64:23 associate 17:14 17:16 58:8 86:2 associated 24:4 associates 17:18 41:11 157:23 assumed 97:13 assumes 172:5 assuming 46:22 182:18 assumption 24:7 171:7</p>	<p>atd 77:3 attached 30:20 169:5 190:23 192:22 195:6 205:5 attachment 31:18,19,20 attachments 5:21 6:14 7:15 8:9 24:3 30:22 30:24 32:4,13 attempt 25:23 58:25 59:13 131:19 142:25 151:16 attempting 143:22,24 146:3 attempts 53:24 59:1 71:17 175:7 attend 81:12 attended 62:9 90:20 attending 122:14 attention 56:14 196:7 attorney 13:4,15 13:22 14:13,20 15:10,18 attorneys 14:5 15:3 attractive 175:13 attributable 48:16 attribute 48:22 attributed 48:11 182:20</p>	<p>audio 58:7 audited 117:4 auditor 112:6 auditors 61:12 113:25 august 19:14 20:4 23:2,16 26:19 28:3 55:22 56:1 170:5 179:7 auriga 65:25 126:2,2,5,5,10 126:14,15 authenticate 46:20 authenticated 46:15,20 authority 85:13 100:23 133:9,16 136:20 175:4 184:1 authorize 171:20 authorizing 25:6 automatedly 192:8 automatically 191:22 192:16 193:20 avail 177:3 available 94:16 147:8,16,20 148:8,17,22 149:17 176:13 availed 40:2 63:14 89:1 188:15 193:23 197:6 198:3 availment 43:13 44:5 48:5 78:20</p>	<p>172:14 avails 43:15 172:17 avenue 13:16 14:6,21 avoid 25:13,14 49:20 109:14 114:12 134:5 141:25 146:22 147:14,25 avoidability 188:1 avoidable 204:20 205:5,24 206:3 207:5 avoidance 127:16 134:1 avoided 196:14 avoiding 106:11 aware 28:24 29:17 58:11 59:22 62:20 64:5 65:5 66:2 97:17 107:13 181:8 awareness 107:17,18</p>
			<p>b</p>
			<p>b 4:5 5:22,24 6:2 7:16,18,21 8:15 11:9 12:6 19:19 25:10,14 27:19 29:9 31:13 33:4 33:8 44:2 49:6 54:14 56:1 57:16 103:3 119:1 156:5,24 159:17 161:16 161:19 162:18 164:24 167:4</p>

[b - beginning]

Page 10

172:4 184:16 185:4,23 193:10 194:7 202:25,25 b.r. 84:4 120:24 125:20 142:12 147:11 157:16 167:21 168:12 170:19 184:11 196:17 back 20:8 24:7 27:20 32:2 35:10 43:18 44:1,11 54:6 57:5 97:12 98:5 99:12 100:5 102:1,11 123:13 128:15 129:8 130:7,11,25 131:19 143:4,18 145:13 146:12 153:13,19,20 154:5 162:22 166:19,20 199:14 202:16 backdated 134:16 background 26:17 125:15 146:24 175:24 backup 17:6,7 17:11 backwards 48:19 153:9 bad 100:7 101:1 102:9 176:3 badges 128:16 133:4 136:12 140:22 141:14 141:16,18,21	bagley 22:8 bahamas 76:21 76:22,23,25 80:6 83:17 bahamian 77:24 bahn 84:20 bahrain 196:16 baker 13:3 37:1 41:1 58:8 69:15 86:2 103:1 132:11 154:14 204:5 banca 202:20 bancaire 1:16 1:24 5:2 6:20 16:5 banco 171:24 bandied 93:22 bank 3:7 11:9,19 11:25 14:13 16:6,10,13 27:1 33:2 34:3 35:8 43:5,10,13,14 43:16 76:23 83:20 95:23 112:10,13 119:20 139:20 154:8,12 155:6 155:7,9 179:23 180:9,13,13,21 182:6 183:1,23 184:2 186:19 190:10 191:8 193:22 194:2,9 194:11,14,15,15 195:8,14,18,20 195:24 196:17 196:17,19,23,25 199:13,14 202:20	bank's 11:12 banking 3:18 12:6 14:20 203:24 bankr 157:16 163:13 167:22 170:19 184:11 bankruptcy 1:1 3:23 4:7 5:12 6:9 7:5 8:3 10:1 93:23 125:3 127:15,15,21 137:15 138:11 142:11,16,18,20 147:24 148:11 148:25 161:21 177:20 178:2,13 179:10 187:23 192:5 banks 181:20,21 182:19,24 banque 6:7,13 8:1,8 13:22 16:18 18:13 187:2 bare 167:2 171:20 bars 169:24 base 137:4 based 49:3 54:11 55:14 60:15 62:3,16 68:18,19 70:6 79:11 81:17 86:10 94:18 126:5 129:13 133:21 138:22 139:20 153:6 161:17 168:3 170:24 177:16	178:3,8 179:2 188:24 189:1 191:25 206:4 207:15 basic 55:10 138:20 199:15 basically 36:8 50:7 75:13 82:24 97:17 105:12 123:8 basing 127:1 basis 26:1 38:13 43:14 48:4 49:2 59:2 77:25 82:18 85:22 91:25 133:20 142:4,5 144:11 144:13 145:17 145:19 146:6,11 151:23 162:17 170:16 175:18 176:21,22 177:21 178:4 179:19 198:5 199:3 207:4 209:6 bates 30:15 bccs 33:13 bear 56:14 147:11 148:6,13 149:3,9,12,21 150:2,6 bears 149:13 becker 14:19 204:3 began 40:20 beginning 48:25 53:12 124:7 134:17 167:10
---	--	---	---

begs 189:6	193:15 194:17	23:5,10,20,22	blind 24:6 33:14
behalf 5:6,16 6:7	195:9 204:6	23:24 24:7,17	33:15
6:13,23 7:9 8:1	believed 51:1	24:25 25:5,19	blindness 52:10
8:8,19 9:9,13,23	believes 100:13	25:23 26:1 27:9	111:21 120:18
10:8,15,22 11:5	belongs 66:14	30:12 35:4	120:18
11:14,19,24	109:20	bil's 18:19,20	blmis 21:6 23:12
36:13 37:5 38:6	beneficial 202:7	19:2,9,11,13,16	23:22 24:10
39:8,16,18,20	beneficiary 9:4	19:21,22 20:3,4	36:8 38:14
43:4,8 60:1	benefit 134:25	20:11,13,20	39:14,16,17
72:15,24 78:24	148:9,22 176:17	21:10,17 22:4	43:25 46:14
79:1 80:15 86:4	177:4 192:4	22:18,22,25	49:16 50:1,8
87:13 89:17	benefits 89:1	23:2 24:9,13,20	55:17 56:10
107:7 122:7	172:20 176:23	25:8,11,18 26:6	59:23 60:6,24
123:19,21	193:23	26:8,10	61:16,16 62:4,5
132:11 154:14	bermuda 174:5	bil005 30:19	62:13,17,24
200:9 201:24	174:5	billion 88:22	63:7,24 64:6,7
204:5	bernard 1:7 2:5	156:25 157:4,6	64:10 65:18
behavior 161:1	2:7,16,18 3:2,4	158:11,18,20,24	66:4,21 67:16
161:5	3:13,15 10:9,10	159:2,5,10,11	74:20 75:18
behold 80:9	10:24,25 11:15	159:23,23 160:2	77:17 81:18,25
beholden 78:21	11:16 184:10	160:9,10,11,12	87:6 88:15,20
79:5	bernstein 52:7	162:23,25,25	88:22,24,24
belgium 80:17	52:18	163:2,4,25	89:4,5,8,19 90:8
believe 24:13	bernstein's 50:2	165:25 166:2,3	90:16,25 91:11
25:17 27:11,12	best 51:16,17,23	166:4,12	91:20 97:18,24
28:23 30:3	75:1	billions 117:16	98:6,9,18 99:2
31:15,17 35:13	better 35:18,21	205:6	105:2 107:1,2,9
35:16 36:7	143:2 187:4	bind 85:13	107:11,14,17
37:25 38:2	beyond 106:11	binding 133:9	108:11,20,22
40:17 44:13	114:13,18 121:4	139:22 153:8	109:1,5,7,24
52:9 70:25	bifani 168:10	157:21 192:15	110:2,12 112:4
85:19 105:25	bifurcates 57:24	bit 26:17 44:1	112:6 113:11
115:11 118:4,19	big 23:21	45:18 106:18	114:1,25 115:14
129:5 154:17	bil 5:24,25 6:2	150:11	115:24 116:13
155:18,21	7:17,18,21	bivens 161:23	117:17,21,24
164:23 165:20	13:23 16:11,19	bk 179:4	118:5,8,14,16
167:8,10,13	18:13,15,22	bless 127:10	119:13 132:15
179:16 180:6	19:4,7,20,24	bli 174:21	134:6,11,14,16
191:5 192:1,24	20:5,22 21:2	198:19	134:22 135:4,8
192:25 193:3,10	22:19,19,22,24		135:11,16,18,19

[blmis - butler]

Page 12

135:25 137:19	boccuzzi 10:15	brief 47:7 48:14	155:1,1 161:23
137:23 140:11	11:5 15:23	48:18 73:6 77:4	205:9
141:1,4,7,9,15	123:20 124:2,4	79:4 80:24	build 80:3
143:4,6,7,10,11	124:4,4,6,11,14	85:11 96:23	bull 30:15
143:13 144:8,12	124:19,21	97:4,10 127:12	bullet 197:24
144:17,25	125:11,14 127:8	130:15 143:1	198:1
145:22 146:16	129:25 152:3,4	152:23 164:8	bunch 183:14
146:18 147:2,5	152:8	168:14 179:5	200:11
147:5,7,18,21	boil 48:25	183:10 196:7	burden 25:24
151:17,18 156:6	bolsters 149:10	205:8	114:11 149:14
156:7,9,12,20	bones 167:2	briefing 12:10	149:23,25
156:24 157:5,6	books 65:4	167:9 186:7	207:20 208:2
158:9,20 159:13	70:22 92:14	briefly 48:7	burdens 208:7
162:25 163:11	116:23 117:2	122:6 150:24	business 38:4
164:4 165:25	119:18	167:14 184:19	39:2,3,4 40:3
166:2,13,18,19	bore 83:18	203:4 207:14	45:1 48:6 49:1,2
167:4 173:13,15	bosses 100:16	briefs 44:10	59:9 72:7 75:5,8
173:16,21,21,22	bottom 51:6	178:22 180:23	75:9,11,12
173:23 175:17	bought 126:9	201:4	81:18 83:14
177:20,24	bound 99:25	bring 67:6 80:20	87:4,18 89:4
182:11,13,18	146:1	176:1 196:6	98:8 111:9,9
185:3,5,11	bowling 3:24	bringing 182:12	118:14 134:11
188:18,20,25	box 89:17	brings 80:12,13	134:15,17,19,19
189:2,3,6,21,22	boxes 95:3	147:22	135:2,6,9,15
190:22 192:3	brain 145:11	brj 171:24	136:1 141:1,5
198:4,22,25	branch 43:6,17	broad 15:11	161:6 183:20
199:3,5,25	66:21	27:19 31:15	193:24 196:19
200:2,6 201:13	branches 44:20	143:16,25	196:22
204:20 207:1	breach 205:9	144:10,16	butler 6:6,13,15
208:14	breached 205:12	145:17	6:17 8:1,8,10,12
blueprint 169:7	205:13	broader 127:20	14:2 16:8,9,14
bmp 65:25,25	break 36:1	200:11	16:17,23 17:1,3
bnc 184:3,5,8	68:22,25 97:16	broadly 24:7	18:1,6,8 26:15
bnp 108:20,21	97:25 105:13	28:6 73:25	26:16,25 28:9
108:24 109:2	154:3	81:14	28:21,22 29:3,4
183:25 184:10	brett 9:23	broker 198:24	29:6,13,23 30:8
bnp's 108:23	brian 204:4	198:24 199:1	30:23,25 31:7
board 64:3	bribery 181:12	brought 43:22	31:14,22 32:8
66:16 76:24	181:16	43:23 56:13	32:19,20 33:13
83:14 91:3		57:16 124:22	33:21 34:2,7,10

[butler - causing]

Page 13

34:13,22 35:3,9 35:13,20,23 36:3 butler's 23:9 33:10 button 41:15 buy 189:11 201:16 buying 131:4 190:3 bvi 176:15 bye 123:5	162:12 174:7 calling 156:6 callouts 108:3 calls 46:7,13,21 46:22,25 47:3 47:12 62:11,13 77:19,20 cameras 205:20 canadian 180:9 180:20 capacities 80:18 114:24 capacity 5:8,9 5:18,20 7:1,2,12 7:14 8:25 37:24 caption 16:17 37:15 care 111:14 careful 202:9 carefully 155:16 167:12 carige 202:20 carmine 10:15 11:5 15:23 123:20 carried 60:17 67:15 carry 62:6,7 65:13 77:6 89:15 167:6 carrying 60:1,11 60:13 63:10,11 181:4,16 case 1:3,11,19 2:2,13,24 3:10 9:8 16:10,25 23:12 24:24 26:17,20 27:21 28:2 30:4 38:7 40:4 45:4,11	47:1,4,7 51:24 52:7 53:22 54:10,25 56:12 59:18 63:13 65:23 84:4 91:13 93:23,23 93:24 94:4,5,12 95:24 96:3,24 98:3 99:25 101:12 102:8,13 102:20 114:2 118:2,3,9,21,22 120:16,23 121:3 122:20 125:24 128:5,9 129:1 129:15 131:3,10 133:22 137:1 138:1,23 139:10 139:19 142:15 144:4 145:2,6 147:12,17 150:22 151:5,6 152:23 153:15 154:20 157:10 157:15,19,20 158:5 159:19 160:16 161:10 163:12,13,23 164:3 167:7,23 168:6,10,13,21 169:7 171:10,22 172:9,16 176:15 176:16 177:21 178:10,17,20 180:10,22,23 182:12 183:21 184:7 186:4 188:4 189:10 195:22 196:2,5 196:9,9 201:6	201:14 204:18 206:23 207:22 casein 168:11 caselaw 83:23 127:1 131:10 cases 16:15 17:4 23:16 101:24 111:20 116:19 116:21 117:13 127:12 131:2,11 139:17,19,23,25 152:14,20 155:17 157:8 158:3 160:4 161:21,21 162:20 163:10 163:21 164:5,7 165:12,16,20 169:2 170:18,25 174:13,17,19 175:11 177:5 178:23 179:4 180:19,24 181:12,14 182:4 182:5 183:6,17 188:3 189:14 195:25 196:6 201:3,5 cash 144:8 cast 67:5 catastrophe 162:9 cathy 9:8 cause 25:23 165:9 caused 112:6 168:1 causes 81:24 causing 20:18
c			
c 5:24 7:18 13:1 16:1 25:21 54:14 74:3 156:25 157:1 167:18 168:3,8 185:6,25 187:10 205:7 206:12 210:1,1 calculate 117:20 calculated 144:7 calculating 45:25 62:2 calculation 126:16 187:2 calculations 145:24 call 34:6 46:9 76:21 78:6 82:22 124:22 155:9 156:9,12 called 16:17 22:8 34:5 38:9 38:10 41:8,15 47:8 49:21 75:14 96:24 112:11 122:18 127:4 156:7			

[cd - cited]

Page 14

cd 157:1 cecilia 4:6 center 95:12 centered 190:2 centric 192:12 199:8 ceo 34:16,16,17 certain 22:4 42:13,20 74:11 74:13 99:3 104:16 153:7 168:12 certainly 17:25 32:21 34:13 42:9,23 45:10 50:4 81:20 116:8 168:15,18 182:15 199:4 204:23 certainty 49:25 50:7 51:2,13 52:2 120:13 certified 210:3 cetera 84:13 184:2 cgm 1:3,11,19 2:2,13,24 3:10 5:1,13 6:10,19 7:6 8:5,14 9:17 10:3,12 11:8 12:3,5,11 cgml 129:20 chain 30:20 34:11,15,19 35:7 chains 19:16 challenge 44:11 141:25 challenged 86:11 172:1	challenges 172:6 challenging 127:9 chambers 9:21 68:25 123:8,10 123:12 chance 13:21 16:9 194:19 change 152:18 200:20,20 changed 16:18 44:23 channeled 88:21 chapter 2:6,17 3:3,14 characterized 104:16 chardaie 123:19 132:11 charge 34:18 35:21 charlamagne 132:11 charlemagne 123:18,19 132:9 132:10 144:18 144:22 145:4,9 145:13,16 150:7 150:10,16,20 151:2 152:10 153:24 charles 163:12 chart 46:12 76:11 102:15 116:12,15 170:3 charts 83:4 chase 118:22 119:3,8,11 206:23	chased 34:23 chassin 14:19 204:3 chats 21:1 check 10:17 chemical 170:18 chief 104:9,21 110:5 172:15 chilling 181:25 choice 140:14 chose 189:10 196:13 201:16 chris 90:23 104:24 110:9 112:8 churchill 139:24 152:23 cir 180:9 circuit 44:17,21 45:3,9 127:3 136:21,24 137:9 140:6 144:3 157:25 171:24 180:8,10 189:9 201:14 203:14 circuit's 144:4 circumstance 54:24 192:12 circumstances 21:18,24 22:6 23:7 28:16 45:3 59:13 62:21 66:23 86:14 101:18 117:25 119:9 138:15 171:19 183:8,18 188:9 191:24 192:18 197:6,11 199:9	circumventing 109:9 cirillo 11:18,24 12:3 14:12,17 154:9,10,10,17 154:19,24 155:3 155:6 156:15,17 156:18,23 159:4 159:7 163:16,17 164:12,14,16 165:8,15,18,23 166:5,7,11 167:16 169:14 176:4 184:21 186:6,11,21 188:21 189:16 190:14 191:21 192:1 193:5 196:1 197:20,22 197:25 198:2 201:9,20 202:17 203:3,7,22 cirillo's 188:10 192:22 193:8 citation 183:22 citations 164:7 citco 116:23 173:24 180:3 cite 127:12 131:2,10 133:9 137:1 145:8 152:20 157:23 164:7 170:18 184:10 196:7 cited 23:16 32:15 95:24 119:7 139:17 157:15 167:21 168:14 171:23 172:21 175:10
--	---	--	--

[cited - combine]

Page 15

178:21 180:22 180:23 201:3 203:12 cites 46:6 127:11 152:15 157:24 196:6 citi 11:3 124:23 125:9 129:4,11 130:22 131:23 132:2 citibank 2:21 10:13,15 11:5 15:18 123:15,22 125:2 126:16,24 127:3 129:21,24 129:25 130:2,9 131:20 133:15 143:3,20,22,24 146:1,12 147:4 149:11 citicorp 10:15 11:5 15:19 123:22 125:2 143:22 147:5 149:11 citigroup 10:16 11:6 15:18 123:21 124:25 125:1,5 126:1,4 126:6,12,12,17 126:25 129:2,23 131:18 citing 84:3 85:10 161:21 177:3,5 177:11,11 179:10 202:19 citizen 80:16 city 205:16 civil 20:16 21:20 25:3 140:7	161:21,22 claim 43:22,22 44:6 55:10,12 55:13 71:2 101:12,15 102:5 106:17 114:21 125:2,5,6,17 129:19 130:14 131:8,16,17 132:6 133:13 136:9 140:2,14 140:16,21 146:19 149:4 151:8 153:21 156:1 161:24 162:13,19 166:15 171:20 177:20 178:7,13 178:14,18,18,24 178:25 179:1,3 179:12,18 192:1 192:2,6 205:9 205:21 207:4,24 209:7 claimant 179:13 claimed 107:9 162:1 192:15 claiming 121:14 208:5 claims 38:22 40:3 42:25 45:23 59:5 67:13 68:19 85:8,20 91:16 94:4 97:5 106:11 110:24 114:12 124:24 125:3 126:22 132:6 133:21 146:24 177:22	177:24,24 178:1 178:3,9 191:20 191:22 192:8,23 197:8 199:24 200:4 clarified 124:17 145:11 clarify 38:12 39:9 69:21,25 73:7 113:19 151:3 clarifying 69:19 69:20,22 classic 71:14 claudine 8:24,25 9:2,3 37:14 clause 176:22 192:11 193:14 193:20 clauses 175:21 176:6 claw 102:1 130:11 131:19 clawed 102:11 clear 25:1 28:10 30:21 31:8 32:10 37:8 59:4 74:7 85:1 115:10 146:20 167:1 183:18 186:7,10 195:13 clearly 25:3 27:3 161:15 169:24 199:21 204:24 204:25 cleary 15:17 123:21 clerk 5:11 6:8 7:4 8:2 9:25	client 26:18,21 26:25 27:10,25 31:1,24 32:3 34:24 35:1,1,2 111:11 186:22 clients 97:22 186:11 clifford 13:21 16:9 close 120:15 closed 65:25 90:22 109:3 closely 61:24 160:15 closing 151:11 code 125:3 127:15,16,21 137:15 138:11 147:24 cohost 41:9 57:5 coin 153:11 collapse 143:22 146:9 151:20 collapsing 151:7 colleague 57:17 58:1 68:11 colleagues 37:2 collecting 76:8 76:16 collective 83:11 87:17 collectively 72:5 157:3 171:1 combatant 162:8 combination 160:19 combine 144:14 145:20
---	--	--	--

[combined - completely]

Page 16

combined 185:22	138:24 139:4	compel 18:12 25:10	121:5,10,22,24 123:25 124:23
come 35:10 43:18 44:1 53:8 62:21 97:18 123:13 158:9,17 159:13 160:9,10 160:10,11 163:17 166:2 197:13	commonality 84:8 commonly 87:17 173:24 communicate 20:3 communicated 39:13 communicating 45:24 63:10 communication 62:13 89:18 92:15 communications 18:14,16,18 19:8 20:7,21 21:5,11 23:1 24:6,9,11,14 48:2 77:13 94:21 95:1	compelled 22:11 compensation 96:22 97:8 99:15,15,17,21 100:3 101:3,9 101:17,19 102:1 102:2,10,11,19 104:8,14 122:13 competent 100:13 competitive 160:18,23 161:8 complaint 8:18 9:12 10:7 11:13 39:12 41:24 42:7,10,17,17 43:19 44:2,13 45:17 46:17 48:14 50:9,12 50:13,25 51:5 51:15 52:12 53:11,19 54:1,7 54:8,25 55:3,4,7 55:15 56:2,23 59:4,8 66:9,20 67:21 70:3,12 70:25 75:8 77:10 82:8 86:24 90:18 97:20,21 98:17 98:20 99:16,20 100:1,6,22,25 101:7,15,23 102:15 104:5 105:2 107:21 111:21 113:4 114:23 116:6,18 118:23,25 119:1	126:20,24,25 129:4 130:19,20 130:21 131:13 134:13,16,19,21 135:3,17,23 136:2,8 146:14 150:3 155:7,8 155:13,18,21,24 156:4,5,18,24 157:4,11 158:7 158:11,16 159:16,18 160:1 160:13,21 161:12,17 162:4 162:12 164:23 165:1,8,19 166:9 167:17,25 168:1,9,17,18 168:25 169:7,15 169:21 184:19 185:4 187:17,21 188:23 198:10 199:11 201:3 205:15,16 206:7 207:7,9 complaint's 173:11 complaints 157:2,20 158:5 159:8 167:18 complete 30:9 66:11 117:9 129:19 completed 18:23 completely 25:13 60:21 63:17 75:19 76:9 87:22,22
comes 50:2 161:14 coming 61:16 62:5 84:12 105:1 162:22 173:21 comingled 134:22 135:18 135:20 141:7 commencement 148:11,25 comment 29:24 201:21 comments 164:17 commerce 181:25 commercial 174:17 181:19 181:24 182:25 196:10 199:20 commissions 119:4 committee 48:12 48:15 64:17,25 65:1,7,8,11,15 committing 51:13 52:3 common 83:24 87:20 88:7	companies 72:1 72:1 87:3,10 95:21 company 9:16 16:6 36:19 41:23 43:3 44:20 45:16,20 47:17,17,21,23 47:25 48:3,12 48:17,20 54:16 61:6 63:21 64:14 66:13,17 67:22 70:19 76:22 77:24 78:14 96:25 122:16 168:11 170:19 174:4 186:6,10,15 195:8 203:24		

[completely - constitute]

Page 17

97:23 151:4 199:20 completing 19:3 compliance 108:16 complicated 164:9,18 comply 207:6 comprised 54:20 125:18 136:4,6 153:12 concealed 141:4 concedes 49:18 53:15 conceivable 161:14 162:14 concentrating 35:19 concern 32:2 112:6 187:23 concerned 148:5 concerning 27:13 99:25 100:8 103:11 117:7 143:1 concerns 22:24 50:16,19 51:18 52:13 90:24 104:19 108:25 concert 65:16 concerted 160:20 161:2,5 concession 156:16 concessions 166:16 conclude 50:7 52:1 concluded 51:20 96:24 147:13	179:12 209:23 conclusion 67:17 91:21 114:7 141:19 conclusions 171:6 conclusory 58:22 71:14,20 158:11 159:24 167:3 169:23 170:9,22 183:9 198:15,17 concrete 111:22 concurrence 127:6,11,11 133:15,18 137:8 concurrent 127:2 concurring 137:7 condition 181:3 181:5 conditioned 151:10 conditioning 36:2 conditions 162:7 181:2 conduct 20:16 42:10,16,21 43:2 44:6,6 47:22,22 48:22 49:3,3 82:18 93:17 100:14 106:23 110:21 160:22 197:9 conducted 83:14 155:10 172:19 conducting 48:5 172:18 176:19	177:4,14 188:15 197:7 conducts 110:18 confer 19:23 25:19 32:8 33:21 179:19 180:13 182:14 191:22 192:8 193:21 202:14 conference 5:5 5:16 6:6,13,22 7:9,25 8:8 16:3 conferences 18:18 conferring 180:14 confers 192:16 confined 162:2,6 162:7 confinement 161:25 confirm 97:6 99:14 104:22 112:1 confirmation 112:5 confirmations 113:1,12 confirmed 110:6 112:1 180:23 conflict 174:24 confusing 45:19 187:24 confusion 73:1 conjectural 158:12 169:23 170:9 connect 46:25 connection 22:8 42:17 63:25	77:17,23,25 81:13 82:16 90:1 125:23 140:17 155:11 190:11 191:11 conscious 60:23 consent 193:14 consented 192:13 consequences 54:4 conservation 179:11 consider 5:4 6:5 6:21 7:24 9:21 52:5 136:24 consideration 128:20 169:24 considerations 138:18 considered 46:12,16,18 47:1 65:19 84:2 140:15 157:10 167:12 170:2 considering 57:4 consistently 175:7 consolidated 2:5 2:16 3:2,13 10:24 187:20 conspiracy 160:19 conspiratorial 161:7 constant 77:6 89:14 constitute 120:20 182:7
---	--	--	--

constituted 52:19 83:14 206:13	90:13 91:5,17 95:5 175:3,8,9 176:7 179:19	contradicts 139:21	copies 29:14 33:14,15 94:16 94:17
constitutes 21:12	182:23 183:11 183:14 193:22	contrary 39:21 45:9 51:3 86:25 90:18 140:21 171:4 184:1 192:7 198:15	corner 51:6 corners 159:17 corp 139:25 corporate 57:22 74:14 80:23 81:1,3,5,7 82:25 83:11 84:14 85:2 87:9 93:18 96:2
constitution 64:17	contain 24:2 132:23	contrast 172:22	corporation 81:7,9 84:2
constitutional 161:23	contemplates 171:18	control 85:7 128:13,18	correct 17:4 28:12,14 33:10 36:10,11 37:21 37:22 72:22 115:3 116:17 125:13 185:22 186:16
construction 80:4	contemporane... 151:11	controlled 85:10 87:22 91:2	correspondence 5:22 6:1 7:15,19 27:2
constructive 139:19 140:2	content 32:14 162:12 163:6 201:4	controlling 45:9 162:21 167:11 177:17	correspondent 196:3,11,15 197:3
constructively 153:1	contention 171:12	controls 77:7 89:15	corresponding 54:25 126:10,13 130:24
consult 176:4	contentions 140:22	controversial 51:7	cosponsor 42:6 42:12
consultant 51:18 77:8 89:10	contested 36:6	convenience 169:25 178:11	counsel 18:12,19 18:20 19:2,9,11 19:13,16,21,22 20:3,4,11 24:13 25:11 36:22 40:19 58:9 86:2
contact 21:8 42:23,24 43:20 47:2 59:1 62:25 90:22 172:13 175:23 176:20 176:23 177:1,19 179:20,22 180:14 181:2 182:7 183:12,12 192:17	context 94:9 122:21 127:23 128:7 131:18 172:23,24 179:16,17	convenient 175:6	
contacting 112:13	continually 203:17	conversations 34:24	
contacts 20:24 20:25 24:21 26:8 27:25 39:21 40:4 43:21 48:10,16 49:4 60:14 62:20,22 63:15 65:17,20 78:23 79:25 86:23	continue 167:14 contract 39:15 160:18 177:1,8 205:9,11	conversion 174:4,7,9 175:16	
	contracted 38:18	conveyance 97:2 130:17 131:8 140:2	
	contracts 38:19 39:23 60:13 68:14 83:18 84:13 205:12	conveyances 127:22	
	contractually 85:13	coordinated 91:1	
	contradiction 138:25	coordination 61:12	
		copied 24:6 copiers 67:7	

[counsel - covered]

Page 19

92:16 94:17	31:4,8,18 32:5	122:3,5,8,18,24	179:10 180:11
122:9 190:5,13	32:16,22 33:12	123:7,23 124:5	180:16,18
191:6,13	34:2,6,11,15	124:9,12,16,20	181:18,21
counterparties	35:1,5,10,15,18	125:10,12,20	182:22 183:4,16
51:10,10 66:19	35:25 36:5,16	127:6 129:24	183:23 184:8,8
107:8 112:8,11	36:20,24 37:7	130:16 132:9	184:17 185:18
112:16 113:25	37:16,20,23	133:10,21	185:21,24 186:3
114:1,4 120:16	38:2 40:10,13	136:14,24 137:7	186:14,20 187:9
counterparty	40:16,21,25	138:21 140:19	187:14,18,19,23
109:13	41:7,13,18,20	141:16 142:11	188:7 190:18,25
countless 47:12	44:16 45:7 57:4	142:14,15,16,18	191:14 192:5,19
countries 38:21	57:7,11,19 58:3	143:9,17 144:6	193:17 194:18
country 162:1	58:5 59:11	144:18 145:2,7	194:21,25 195:2
210:21	60:22 61:21	145:10,15 146:9	195:11 196:9,14
counts 176:5	63:15,18 67:3	147:12 149:2,21	197:20,24 198:1
coup 51:25	67:18,25 68:3	150:1,6,7,12,18	199:21 201:5,9
couple 49:9 93:7	68:10,17,21,21	151:1,20 152:2	201:19 202:12
99:12 197:23	68:24 69:4,9,11	152:6 153:22	202:15 203:2,5
202:19	69:13,17,20,24	154:1,3,5,15,21	203:19,20,23
course 18:6	70:5 71:3,6,9	155:2,5 156:10	204:6,11 207:12
31:24 32:16	72:12,16,19	156:14,17,19	207:23 208:17
54:4 99:9	73:12,14 74:18	157:9,13,15,18	208:22 209:1,14
127:14,23 128:2	74:23 75:17,21	158:1 159:2,5	209:20
128:6 176:12	78:21 81:6 83:5	159:16,19 160:5	court's 26:4
183:3 198:2	85:25 88:13	160:25 161:3,11	72:23 83:3
200:9	92:5,19 93:1,5	161:15 162:5,10	86:18 90:14
court 1:1 3:23	93:24 96:4,6,9	162:12,15	96:15 139:20
5:11,12 6:8,9	96:18 97:9,16	163:15 164:10	142:20 155:16
7:4,5 8:3,3 10:1	97:25 98:7,22	164:13,15 165:2	160:3 169:25
10:1,17 16:2,12	99:9 102:23	165:11,17,22	174:24 175:1
16:16,20,24	103:7,9,17,21	166:5,10,25	178:2,7 179:14
17:2,5,16,17,22	103:25 105:11	167:15,16,21	courts 22:6
18:4,8,10 20:2	105:18,21 106:2	168:13,16	84:25 133:5
20:18 21:12	112:18,20 113:3	169:13 170:13	136:20 138:13
22:9,21 23:3	113:9,13,16,22	171:14,25 173:9	138:14,16 168:7
25:7,10 26:12	114:3,6 115:2	174:16 175:2,10	176:13 183:2
26:13,14,22,24	115:10 117:17	175:11 176:3,10	200:20
28:9,18,21 29:1	117:20 118:6,22	176:11,12	cover 155:12
29:5,8,19 30:8	119:22 120:1,5	177:12,13,17,22	covered 99:2
30:13,17,23	120:25 121:18	178:3,11 179:3	

[covers - deceived]

Page 20

covers 125:23 craft 206:4 crated 138:17 create 62:21 82:10 88:19 101:23 207:19 created 47:10 65:7 87:2,5 88:17,20 90:7 134:16 138:12 138:21 139:8 141:10 creates 175:3 creation 66:6 credit 143:20 158:15 crediting 144:7 creditor 149:20 creditors 117:19 128:10,12 134:3 134:9 138:6,7 139:6,7 140:15 147:17,21 148:9 148:23 149:18 149:19,20 150:6 credits 144:15 145:21 critical 21:12 164:22 cross 151:9 crutcher 13:14 36:13 crystal 167:1 cssf 108:11 109:1,6,12 curative 22:3 cured 163:9 curious 98:9 current 121:5 121:24 126:19	currently 55:3 custodial 18:21 68:5 custodian 39:13 55:21 108:22 112:24 173:23 173:24,25 198:23 custodians 20:5 33:25 67:6 custody 34:15 34:20 35:7 190:22 customer 21:6 56:10 103:13,15 114:25 115:24 118:8,16 132:23 133:8 134:17,23 135:19 136:7 141:8 142:9 143:5,6 144:8 147:1,7 150:23 151:24 155:13 155:25 156:2 157:12 158:10 158:13,19 159:13 164:14 164:23 165:4 166:3,22 184:19 185:1,14 187:3 187:6 191:20,22 192:1,2,5,8,14 192:23 193:9 197:4 199:24 200:4 customer's 144:6 customers 43:16 117:20 134:15 134:24,25 135:5	135:6,15,22 136:1,7 144:17 145:22 147:9 153:7,14 cut 110:14 cutler 51:19 52:1 90:23 100:13,15,20,20 100:21 104:25 105:1 110:9,11 111:25 112:2,8 cutler's 110:14 d d 5:25 7:19 16:1 19:12 54:14,18 55:6 121:21 204:25 daily 120:15 daimler 42:2 44:16,24 dark 206:21 data 29:2 31:6 62:3,4 95:4 database 110:8 date 12:10 21:10 34:23 52:25 54:12 70:7 92:2 92:18 148:2 168:13 185:9 210:25 dated 64:14,18 dates 54:17 71:18 164:19 david 5:5,16 6:3 6:22 7:9,22 10:22 14:9 17:13 davis 168:10 day 19:9 20:25 21:1 28:19	45:23,23 46:1,1 63:10,11 64:16 66:2 109:4 123:4 131:6 154:25 176:1 181:20 204:12 205:10,14 207:14 209:16 days 97:12 de 8:24,25 9:1,2 9:2,3,4,5 37:14 51:25 deadline 19:3 dealer 199:1 dealers 198:24 198:25 dealing 33:15 34:4 74:24 75:15,25 77:11 93:11,12 115:4 127:24 128:9 130:1 dealings 75:12 75:12 deals 184:6 dealt 81:17 debtor 1:9 127:20 128:14 131:6,11 132:3 138:5 140:7 146:22 147:14 147:25 148:2,6 148:7,14,18,20 196:12 208:1 debtor's 136:22 140:18 147:16 148:9,23 152:24 debtors 153:17 deceived 108:9
--	--	--	--

[deceiving - defraud]

deceiving 109:6	deep 117:13	3:19 9:12 10:6	139:17,22 140:5
december 200:5	defeat 147:9	10:21 11:4	141:25 142:1,8
decide 142:16	151:7 172:2	13:15 15:3	142:17,21,25
decided 44:16	defeated 179:9	16:10,15 17:3	143:2,3,5,14
49:12 52:7	defeats 149:1	19:6 36:14,21	144:2,15 145:5
121:9 149:25	defendant 11:12	37:5,9,23 38:7	145:14,20,23
196:8	13:22 16:9	38:13,25 39:1,6	146:3,5,5,7,8,19
deciding 161:8	18:12 21:6	39:19 40:1	146:21,25 147:3
decision 21:8	22:12 37:19	44:12 49:4,15	147:10,12,20,23
22:8 42:3 44:16	41:23 45:6,8	49:15 51:1	148:19 149:5,6
44:24 49:13	47:12,16 48:9	52:17 53:22	149:7,9 151:6
50:3 54:3 93:21	49:25 50:3,7	54:12 57:3,17	151:14,20
101:6 117:11,15	53:16,24 67:12	58:12,18,24	160:18,22,24
127:3 142:20	67:14 80:14	59:7,9,17,21	161:4,5,7
144:5 145:14	85:14 89:3	60:7,7,22 61:25	175:14 186:4,8
157:16,25	96:12 103:24	62:19 63:3,6	187:11 188:23
171:25 174:21	115:25 117:23	65:4 67:2,19	defending 169:9
174:24,25 175:1	119:3 122:1	70:7,8,9,13	defense 122:18
183:3,23,25	150:1 154:11	71:19 72:6,10	122:21 149:5,7
184:6,9 185:17	156:2 167:6	72:15,16,17,24	149:13,23 150:4
198:19 201:2	172:17 174:14	73:4,5,22 82:23	206:4,19
decisions 49:11	174:22 175:3,6	86:6,11,17,22	defense's 171:16
54:4 64:5,6,24	175:8 178:25	87:3 88:5,15	deficiencies
78:24 122:16	181:13,13,14	91:18,23,25	56:13 146:4
155:16 160:3	186:5,9,24	103:3,14,16	define 180:19
161:6 162:16,20	196:1,10,14	105:16 106:1,20	defined 115:16
163:20 164:17	205:10 207:19	106:21,23 107:1	138:11
166:25 177:15	208:5	108:4,9,15,15	defines 148:5
180:7,17 181:23	defendant's	108:17 109:8	defining 183:17
182:21 197:16	58:10 86:5	110:16,21	definitely 29:13
199:21 200:18	91:17 106:7	111:16,22	definition 23:4
declaration	107:20 133:8,20	114:15,19,20,23	70:10
46:10 92:22	133:22 136:13	115:16,22,24	definitive
173:10 190:23	136:18 138:25	116:14,15,17	180:17
192:2,22 193:8	140:22 141:23	118:2,24 119:4	deflecting
193:10 195:6	142:5,7,12,19	119:6,11,20	107:15
declares 92:23	149:1 174:15	122:12 124:23	defraud 127:19
declined 143:9	184:1 207:15	132:13 133:9,14	128:22 132:16
deemed 43:12	defendants 1:17	134:3,5 137:1,4	133:2 134:3,8
44:4 45:13	1:25 2:11,22 3:8	137:11,17 138:8	138:6 139:6

148:3 149:18 degree 76:14 84:8 delaware 75:15 delay 127:18 128:21 133:2 134:2,8 138:5 139:5 148:3 149:18 delaying 168:21 delete 187:11 deliberate 54:3 54:4 107:19 deliberately 63:23 108:9 109:6 delighted 17:17 demand 32:24 demanding 121:8 demonstrable 107:18 demonstrate 58:25 59:5 79:4 79:19 81:2 82:2 82:22 83:2,10 85:3 95:4 150:2 demonstrating 78:20 175:9 demonstration 81:23 demonstratives 40:6,9 41:6 denckla 174:11 177:5 denominated 43:7 deny 101:21 department 35:4,5 84:3,9,19	84:23 85:4 180:23 departments 82:23 86:19 88:6,10,12 dependent 83:21 depends 146:8 174:14 deplete 142:3 146:19 149:15 151:18 depleted 131:6 149:11 depletion 130:17 131:9 132:19 141:23 142:19 147:10,23 148:4 149:1,3 150:23 153:18,20 deposited 144:8 deposition 6:17 8:12 19:23 25:11,14,20 27:19,22 28:5 28:12 29:12 31:13 depositions 209:10 deposits 143:24 143:25 144:10 144:12,16 145:16,18 146:2 146:17 depth 179:5 describe 79:4,8 described 100:19 describing 100:21 116:8	description 51:25 deserve 155:21 designated 79:11 180:4 196:11 desire 178:8 despite 21:13 64:20 169:1 destroy 24:21 destroyed 21:25 22:2 detail 71:15,18 92:1,7 detailing 116:9 details 117:8 determination 43:20 44:8 determine 26:5 61:1 98:5 117:15 183:5 205:25 determined 178:15 180:7 determining 144:6 171:9 detour 30:2 deutsche 84:20 194:9,15 195:8 196:18 developed 122:15 developing 60:23 dexia 5:24,25 6:2,7,13 7:17,18 7:21 8:1,8 16:17 diary 21:11 dicta 133:14 137:6	dictate 160:16 dictated 64:25 dictum 93:25 94:1 difference 56:23 83:5 159:11 different 22:3 51:9 74:14,16 83:19 94:3,4,4 98:16,16 110:25 113:1 116:18 125:18 143:5 151:4,17 155:19 155:20 159:16 165:13,14,19 177:16 183:3 188:4 difficult 138:16 difficulties 53:5 53:10 54:22 difficulty 82:17 digging 51:20 digits 194:25 diligence 42:21 51:19 109:24 110:3 diminution 148:4 din 186:11 direct 78:22 87:6 88:19 126:7 138:15,25 174:24 206:22 directed 21:2 42:9 43:2 44:5 47:23 48:16 59:10 60:18 64:10,23,24 67:15 88:15,23 89:7 91:7 169:6
---	---	---	---

[directed - doc]

Page 23

188:24 directing 60:3 60:16,23 62:25 63:18 66:24 91:19 directly 38:16 45:5,8 59:23 62:5,24,25 73:19 76:12 78:16 79:17,20 94:25 95:2,5 112:10 139:21 171:4 director 80:23 91:2 111:10,10 directors 65:2 66:16 76:24 83:14 84:15 91:4 95:23 106:21 107:19 115:20 directv 170:20 disadvantaged 167:8 disavow 157:22 disclose 20:1 21:17 22:20 24:23 108:11 189:19,22 disclosed 29:16 196:21 disclosure 22:7 23:18 disclosures 190:17 191:16 discover 62:10 discovery 5:5,15 6:6,12,22 7:8,25 8:7 16:3 18:24 18:25 19:4	21:15 24:5,9,20 25:2,6 27:17,22 27:23,24 28:6 30:1 67:23 91:24 94:2,8 95:7 172:1 201:23 202:21 205:19,25 206:2 206:7,11 208:8 208:10,12,16 209:2,3,6,7,9 discrimination 161:23 discuss 38:11 44:1 58:19 62:12 65:20 126:23 133:18 142:5,6 170:22 discussed 34:14 106:18 125:25 137:20 141:17 146:4 148:6 170:6 178:21 190:6,6,7,10 200:16 208:17 discusses 63:1 189:23 discussing 32:9 191:1,7 discussion 20:9 27:12 80:13 171:17 discussions 91:11 dismiss 8:17,17 9:8,11,12 10:6 10:14,21 11:4 11:13,23 20:22 22:5 24:22 38:1 43:4 44:12	45:11,12 46:17 46:18 58:11,12 58:21 59:3 62:16 80:15 86:5 96:10,19 101:21 102:12 123:9 124:5,21 130:16 132:5,14 133:21 140:13 150:5 154:18 165:6,6 171:3 184:15,24 202:24 204:7 207:9,10 dismissal 38:13 39:2 53:11 129:19 155:21 163:7 169:15,16 186:10 dismissed 55:12 56:24 85:22 123:8 125:21 126:25 130:14 132:7 140:16 161:12 164:24 165:12 167:25 171:16 186:5,15 186:16 198:12 dismissible 168:6 dismissing 168:8 displayed 58:24 dispose 129:1 131:16 disproved 95:22 dispute 75:3 115:12 197:10 disputed 115:25	disregard 96:2 disrupt 153:10 dist 168:10 distinct 74:14 83:2 86:13 distinction 190:15 distinguish 142:21,23 150:22 184:3 distinguishable 184:2 distinguished 183:24 distinguishes 153:15 distribute 134:24 147:8 distributed 78:25 distributions 134:25 135:22 district 1:2 22:7 125:20 136:15 136:20 137:7 139:22 140:20 149:2,12 184:8 187:19 196:9 divide 153:13 dividends 54:19 70:21 dividing 125:5 division 180:22 doc 5:4,15 6:5 6:12,21 7:8,24 8:7,17 9:8,11,20 10:5,14,20 11:3 11:11,18,23 12:9
---	---	--	---

docket 21:9 54:10 124:7 170:4 179:5,6 doctrine 151:7 document 5:11 6:8 7:4 8:2 9:13 9:25 10:7,22 11:4,13 18:16 19:20 20:1 21:10 22:11,12 23:6 25:4,12 27:20 30:4,18 94:10 173:13 193:7 194:5,7 194:12 documentation 97:15 documents 5:23 7:17 18:23 27:1 27:17 32:9,22 34:19 35:21 61:9 62:14 65:4 65:24 68:14 77:15,21 92:2 92:10,11,13,14 92:17,18 94:6 94:11,19 95:10 97:13 117:6,8 117:18 119:17 119:21 195:6,12 195:15 199:15 201:4 206:1 dogs 175:24 176:1 184:15 doing 16:24 39:2 40:2 49:1 61:13 72:7 85:3,25 127:1 156:12,20 157:15 167:24 183:20 187:25	193:24 197:1 dollar 43:7 121:8,8 207:21 207:21 208:3,3 dollars 82:9,12 117:16 181:19 190:3 191:4 196:13 205:6 dominated 87:23 91:2 dominion 128:13 door 105:3 111:2 dorchester 171:23 203:9,9 203:11 doubt 50:1,8 51:2 52:2,20 120:13,19 doubts 51:14 downwind 102:4 dozen 188:3 197:15 dozens 16:14 19:5 169:5 drag 176:10 dragnet 67:5 draw 161:1 199:4 drawn 102:18 109:19 110:1 draws 116:12 drinking 167:19 driven 130:22 drop 204:24 dry 137:25 due 9:17 10:18 109:24 110:3 175:4	dumbauld 9:9 15:10 37:19 96:10,13,15 97:7 98:3 99:3,6 99:14 100:2,7,8 100:18,22 101:4 101:8 102:13,17 103:5 104:6,8 104:20 105:1,4 105:8 110:5 111:25 115:20 122:7,10 dumbauld's 101:21 dumbaulds 102:4 dunn 13:14 36:13 38:6 duties 65:14 87:9 e e 4:5,5 6:1,6,13 7:20 8:1,8 13:1 13:1 14:14 16:1 16:1 49:10,18 49:19 52:22 105:17 106:4 146:14 155:15 158:25 210:1 e.d. 157:16 167:22 168:12 earlier 40:13,13 71:24 72:18 97:21 103:8 115:12 118:17 128:5 199:12 early 120:6 134:18 earned 63:24 83:22 88:24	95:23 earnings 134:20 eastern 162:1 easy 75:21,22 194:8 ecf 146:15 170:4 193:2 echo 74:17 economic 151:22 economy 138:19 ecro 4:9 effect 52:17 131:3 166:8 181:25 effectively 78:11 174:25 198:19 effectuate 196:13 effectuated 39:17 efficient 168:24 effort 55:23 efforts 22:13,18 23:6 25:5 27:20 85:2 91:11 95:14 eight's 187:17 either 19:16 28:7,15 35:6 38:2 47:25 80:6 80:16 82:5 83:16 84:16 108:25 129:20 141:21 153:22 155:22 177:16 197:16 electronic 20:20 24:5 29:4,14 31:5 92:11
---	---	--	--

<p>electronically 18:15 19:8</p> <p>element 85:6 140:2,3 149:4 149:13 156:1 160:17 161:2 162:19 164:22 165:9 166:15</p> <p>elements 149:6 149:8 150:2</p> <p>ellerin 163:12</p> <p>elsberg 5:5,16 6:3,23 7:9,21 14:4,9 17:13,13</p> <p>email 5:21,25 6:15,15,16 7:15 7:19 8:10,10,11 18:14,25 19:1 19:16 20:3,6 21:5 23:1,10 24:8 27:2,13 28:11,15,15,24 30:7,19 31:16 31:19,20,25 32:14 62:11 94:14 96:1</p> <p>emails 18:21 19:5,10,15 21:1 21:18 23:3,23 23:25 24:2,14 26:6,10 27:7 29:2,14 30:9,11 30:24 31:2 32:18 33:25 92:12</p> <p>embraced 174:21</p> <p>emphasize 41:2 88:14 106:13 160:15</p>	<p>emphasizing 87:18</p> <p>employed 85:14 87:16</p> <p>employee 51:6,9 96:22,25 97:7 99:15,17 101:4 101:17 102:11 102:21 105:9 122:13</p> <p>employee's 101:19</p> <p>employees 23:1 24:8 42:20 62:9 62:12 64:2 65:12 66:15 87:11,14,16 95:20,25 102:1</p> <p>employment 98:4</p> <p>encompasses 25:3</p> <p>encouraged 101:25</p> <p>ended 178:3 179:15</p> <p>ends 80:12 163:8</p> <p>energies 95:14</p> <p>enforcement 177:2</p> <p>engage 20:14 43:16 85:15</p> <p>engaged 23:1 59:9 63:23</p> <p>engaging 65:18</p> <p>enjoy 123:4</p> <p>enter 25:7</p> <p>entered 196:24</p>	<p>enterprise 152:24</p> <p>entire 94:13,23 129:1 132:5 149:25 209:7</p> <p>entirely 145:23 158:17 196:15 207:20</p> <p>entirety 131:16</p> <p>entities 14:5 19:7 36:10 39:2 39:8,22 48:25 58:13,13 59:16 60:2,12,13,15 60:20 67:3,5,8 67:11,13 68:16 70:23 71:25 72:7 73:6 74:11 74:12,13,14 75:6,18 76:1,3 76:10,12,13,18 77:14,14 78:3 78:16,17 79:20 80:1,7,22,24,25 81:3 82:1,25 83:3,6,13,15,17 83:21 84:7,7,11 84:17 85:9,9,13 85:15 86:13,18 86:23 87:7,10 87:13,14,15,23 87:23 88:8,10 88:11,17,18,20 88:23 89:20 91:3 92:15 93:9 93:14,18 94:21 95:11 96:1 115:6 119:12,19 131:4 176:13</p>	<p>entitled 22:1,3 25:1 67:23 79:15 91:23 114:21 122:2 158:15 159:21 169:8 170:10,12 171:6,21 204:18</p> <p>entitlement 161:18 171:10</p> <p>entity 39:12,14 45:23 48:11 49:1 60:4,25 66:13 74:3 75:14 78:2,22 79:2,6,8 80:12 82:18,18,24 85:2 87:4,4,13 87:15,18,20 89:7,16,16,19 90:9 109:15 113:7 173:25 174:1</p> <p>entity's 87:20</p> <p>entries 21:11 164:6</p> <p>entringer 8:22 8:24</p> <p>entry 54:10</p> <p>equal 31:12 160:6 161:11 162:11 163:5</p> <p>equally 158:22 163:4 166:1,23</p> <p>equitable 146:9 151:23</p> <p>equity 144:4,6,7 144:11,13 145:14,18,19,24 153:10,13 179:2 179:8,14</p>
---	--	--	--

[equivalent - existed]

Page 26

equivalent 29:15 121:4 140:1,3 eric 11:13 13:12 154:14 errors 51:23,24 escape 157:22 especially 161:24 esq 10:12,23 essence 38:25 essential 156:1 160:17 161:2 172:16 essentially 64:22 67:10 97:4 190:8 207:21 establish 59:18 83:25 89:7 90:14 91:7 132:18 135:8,10 136:22 137:18 141:17 142:8 149:7,8,14 established 107:20 133:11 144:3 150:3 183:2 establishes 44:24 137:21 140:1 establishing 137:12 estate 2:6,17 3:3 3:14 10:25 130:17,24,25 131:9 132:20 141:24 142:3,19 143:4 146:19 147:5,10 148:4 148:10,16,24	149:1,3,11,15 151:19 153:12 153:12,17,18,20 177:24 et 1:13,16,21,24 2:10,21 5:2,2 6:20,20 8:15 10:13 41:21 84:13 184:2 europe 9:14 36:17 39:10 55:19,20,24 64:13 80:19 92:17 95:5,17 european 42:13 evaluate 22:14 evaluated 165:24 evaluating 157:11 evaluation 183:19 evening 209:17 event 111:7,14 events 28:6 171:19 199:8 eventually 137:25 everybody 41:20 150:13 165:12 everyone's 82:13 evidence 20:24 21:13,25 22:2 23:10,15 24:18 24:21,24 46:9 46:19 74:19 111:24 206:8 evidentiary 200:10	exact 169:25 207:17 208:4 exactly 33:7 38:3 41:13 92:9 100:19 113:9 125:16 153:9 160:3,4 168:7 172:13 183:5 example 22:4 23:8 24:5 30:10 30:13,18 33:23 77:11 93:13 97:24 98:17 110:23 131:22 166:21,22 205:18 examples 111:22 excellent 35:25 36:20,24 41:19 105:11 exception 49:21 182:8,13 exceptions 44:25 excerpt 51:7 excerpts 50:12 excess 99:4 exchange 3:7 11:9,12,19,24 14:13 67:14 154:8,12 155:6 155:9 186:19 193:22 exchanged 24:15 exchanges 62:11 exclusive 77:8 89:10 176:8 excuse 19:25 125:10 126:17 154:15	execute 107:6 executed 78:9 198:12 executing 27:10 107:3 175:16 execution 27:8 executive 84:17 executor 91:3 executrix 8:25 exercise 63:16 85:6 116:2 164:9,18 exercising 146:9 exhibit 5:21,22 5:24,25 6:1,14 6:15,16,16 7:15 7:16,17,19,20 8:9,10,11,11 23:8 46:10 56:1 83:6,7,8 119:1 146:14 156:5,24 156:25 173:9,10 185:4,6,23,25 187:10,11 190:23 192:19 192:20 193:3,8 193:10 194:5,7 194:7 195:7 204:25 205:7 206:12 exhibits 19:12 58:22 83:4,8 157:1,8,19 158:2,4 159:8 164:20 166:11 169:6 exist 31:12 44:5 84:18 101:22 existed 23:25 31:17 55:25
---	---	---	---

existence 53:3	expressly 151:10	131:7 137:1	165:10,24 167:1
existent 84:11	171:14	146:17 147:9	170:7,8,14,16
existing 95:23	extent 56:22	148:25 151:23	171:3 172:5,8
exists 28:24	81:22 82:10	152:24 157:4	172:10,11 173:1
44:25,25 86:17	87:8 95:1	161:3 162:3	188:25 203:10
179:2	173:16	166:16 167:2	factually 156:3
exit 110:12	extraordinarily	170:24 171:5,14	160:21 173:18
expect 27:8 30:6	49:23	173:4,22 174:3	179:21 197:16
expectation 80:7	extraterritorial	175:20 176:14	202:22
expected 20:17	82:19	181:8 186:2,11	fail 142:11
expense 25:24	extremely 51:22	187:4,11 189:9	177:17
99:9	100:13	194:3 195:21	failed 20:23
expenses 83:19	f	198:16 199:10	25:19 52:8,11
expert 208:13	f 4:5 8:21 9:14	199:11 200:3	52:22 55:9
experts 208:11	11:10 18:18	202:19 203:10	159:21 162:13
explain 18:13	157:23 168:24	203:15	205:10
42:8 57:21	210:1	facts 19:18 22:7	failing 108:11
114:3 151:14	f.3d 45:4 171:25	22:18,19 23:5	failings 44:1
159:2 180:12	180:9 201:14	26:7,8,10 91:14	fails 71:20 156:4
186:3	f.r.d. 22:9	131:12 133:22	failure 20:20
explained 20:17	f.sup. 84:20	134:4,10 135:10	21:22 26:10
26:3 150:6	170:20 183:24	135:13 141:4	55:13 132:7
198:11,18,23	f.sup.3d	146:2,8,20	155:24 163:9
explains 174:8	141:15	147:2 160:23	fair 83:1 120:7
explanation	face 25:20 30:20	161:4,10,17	204:23
111:1 112:12	53:10 59:18	165:18 171:15	fairfield 1:13,21
121:17,20	63:13 121:10	172:22 177:16	5:1,6,7,16,17
explanations	144:3 150:3	182:12 184:3,4	6:19,23,24,25
110:17,18	185:13	201:3 202:14,18	7:9,10,11 14:5
explicitly 18:17	facie 86:16 88:4	202:25 203:9	16:5,5 17:12
138:11	91:13,22	207:24	23:19 116:20,22
explored 179:4	facilitated	factual 22:10	116:23,24
expose 109:10	100:14	50:25 71:15	117:16,19,21
exposed 109:17	fact 21:13,21,24	90:17 100:6,7	125:8 126:3,6,7
111:3,7 182:1	41:14 42:10	102:9 122:3	126:14 128:1,2
exposure 63:22	48:3 63:1 65:13	142:4,5 146:6	128:2,17 129:3
126:3,7	80:22 96:16	151:4 158:12,14	129:8,11,12,17
expressing	99:15 100:24	159:25 162:3,10	155:13 156:25
176:1	101:17 104:3,13	162:12,16,17	157:3,4 158:6,9
	111:7,15 129:15	163:6 164:20	159:12 162:23

[fairfield - first]

Page 28

163:1 164:25 166:2,5,17,19 166:20 167:17 168:17 173:3,20 173:23 174:10 175:16,22 176:9 176:11,14,18 180:1 182:18 184:19 185:3,4 185:5,7,10,11 185:15 187:3,16 187:22 188:17 188:19,25 189:1 189:5,7 190:5,7 190:8,10,12 191:9,17,25 196:19,22 198:5 198:7 199:5,13 200:6 201:13 207:18 208:14 fairfield's 155:11 159:22 173:1,13,15 174:5,6 180:2 fairness 138:18 faith 100:3,7 101:1 102:9 122:10 172:3 fall 63:21 64:11 false 89:19 128:3,7 134:16 141:5,10 familiar 31:5 family 135:1 far 33:20,22 49:5 84:18 188:3 197:15 198:9 farms 183:6	fashion 166:22 184:9 fatal 142:6 faulty 207:16 favor 58:24 96:20 104:18 106:15 120:20 184:3 favorable 86:15 114:10 fax 39:15 46:7 47:2 62:12 77:16,19,20,25 february 55:22 79:10 federal 20:15 21:19 25:2 148:15 161:22 fee 54:21 117:5 feeder 23:20 38:9,15 70:7,11 73:18,19,25 74:1,2,23,25 75:2,7 76:12 81:25 90:16 92:25 93:13 108:20 142:10 143:8 189:2,11 201:16 fees 55:21 63:4 63:24 64:8 67:14 68:4 70:14,18 71:18 76:8,8,10,11,16 79:16,22 80:8 80:10 83:22 87:7 88:24 89:17 90:9,11 91:18 93:1 95:23 104:11	115:1,7,20 116:10 118:11 119:4 fellow 51:19 ferdinand 8:22 8:24 fernandez 13:10 37:3 57:24 86:1 86:2 92:9 93:3 96:8 fgg 21:6 191:10 fictitious 128:8 143:6,9 144:25 figure 68:3 205:13 figuring 119:22 file 24:1,2,22 178:18 filed 5:5,11,16 6:6,8,13,22 7:4 7:9,25 8:2,8,18 9:8,13,23,25 10:8,14,22 11:4 11:13,18,24 27:21 61:21 70:12 108:12 121:22 170:4 177:19,22,25 178:14,16,17 179:5,6,6,18 184:24 199:25 200:4 filer 178:7 files 18:25 27:2 27:3,4,5,7,16 30:21 31:24 filing 52:24 148:2 178:4,6 178:24 179:3,10 192:5	filings 201:1 filled 107:24 final 25:8 82:15 84:22 179:21 183:22 finally 25:25 65:20 67:1 85:5 114:14 183:7 financial 45:25 61:12 84:10 117:4,18 141:10 171:23 financially 83:21 financier 9:6 37:17 38:10 42:5,19 45:22 49:16 54:21 72:2 79:22 85:17 90:7 financing 181:10 find 17:6 36:9 94:24 112:9 120:18 140:19 146:10 173:10 178:20,20 180:11 183:16 finding 130:5 140:23 160:23 findings 110:15 fine 51:12 55:23 finn 139:20 fiore 174:11 firm 77:1 94:12 96:12 204:3 first 5:23 7:16 17:24 18:3,5 19:4 20:21 22:24 25:18
--	--	---	---

26:16 41:22	fitzsimon 167:23	force 116:1	formerly 37:12
44:12 45:11,14	five 19:13 98:8	forcing 196:22	39:10 73:9
46:8 53:12 97:5	121:22 154:3	196:23	forth 56:25
97:20 98:2,17	204:9	foreclosed	75:10 91:24
103:4 104:1	fixed 58:7	142:20	137:20 146:14
108:8 110:5	flag 23:22 110:4	foregoing 210:3	149:6,12 157:1
117:14 120:10	flags 50:5,10,19	foreign 5:8,10	forum 60:17,18
132:14 133:24	50:23 111:17,19	5:19,20 7:1,3,12	63:15 78:23
137:16 140:19	111:23 152:12	7:14 21:5 38:9	172:18,19 175:3
142:13,14	flaws 142:6	38:15,18,18,19	175:10,21 176:6
155:23 157:13	flies 144:3	38:20,21 39:22	176:7,8,18,22
167:7 171:2	floating 102:17	39:23 44:19	192:11 193:14
172:25 180:23	florida 172:23	47:9,9 71:25	193:20,23 197:9
182:4 184:20	flow 79:19	72:1 74:2,4,6,8	forward 108:24
188:14 193:1,3	208:13	74:8 76:9,10,14	109:3 169:7
203:8 205:3	flowed 102:3	76:15 77:1,12	found 21:8
firstly 165:19	207:19	78:9 79:20 80:1	77:16 84:2 88:3
166:8	flowing 132:1	80:4 82:1 85:6,9	88:7 91:9
fish 11:14 13:12	182:25	85:13,14,20	100:12 111:20
154:13,14	flows 102:16	86:23 93:15	118:6,22 133:6
156:10,11	flummoxed	94:21 95:12	140:16 141:15
184:17,18	103:17	174:14,15	141:16 143:17
185:20,23 186:1	fly 95:7	176:13 180:14	149:4 162:10
186:4,16,21	focus 27:18 32:1	181:5,13,21	187:20
187:10,15 188:8	39:25 49:22	foreseeable	foundation
190:21 191:1,15	93:9 96:21	21:23	173:1 175:20
192:21 193:18	focused 27:25	forgive 167:19	founded 139:3
194:20,23 195:1	56:17 139:25	form 25:24	founder's 51:24
195:3,12 198:3	175:8	29:15 31:23	four 36:14 39:6
198:9,10,21	focuses 131:11	54:19 96:2 97:7	46:7,8,22,23
199:4,7,15	189:20	119:4 144:11,13	47:2,3 81:19
201:9,11,20	folks 82:19	145:17,19	159:17 170:23
202:13 203:12	following 19:1	formalities 81:4	171:11 172:12
203:15	54:6,14 134:9	84:14 87:12,19	172:25 183:11
fish's 173:10	135:13 140:25	formally 87:16	194:18,25
198:6	162:8	formed 48:13	fours 178:20
fits 57:22	footnote 23:16	65:1 151:15	fourth 179:21
fitzsimmons	95:25 96:3	former 179:12	frame 177:6,13
157:15	171:15	179:18	france 80:17

[fraud - give]

Page 30

fraud 23:12,13 50:4,6,16,22 51:13 52:3,14 52:16,19 63:22 88:3 107:2,13 107:15,18,20 108:15 109:10 109:18,24 110:22,24 111:3 111:7,13 128:16 133:4 134:12 136:12 138:22 139:19 140:12 140:13,18,23 141:2,14,16,18 141:22 197:2 fraudulent 97:1 127:22 130:17 131:8 136:23 137:12,19,21 139:16 140:2,24 141:14,18,20 151:22 152:25 153:1,3 french 80:16 frequently 39:11 45:17 friehling 112:6 frolic 30:2 fsl 45:17 46:14 54:15,20 58:15 115:7 full 21:16 45:19 127:1 151:5 168:22 fully 29:23 65:11 96:15 functions 45:24 60:11 62:7 74:14,16	fund 9:15 23:20 36:18 45:16,20 47:5,9,10,15 49:15,15 58:14 59:21 61:4,4,7 61:18,23 62:1,5 62:9,14,23 63:8 63:10,13,17 65:10,25 66:1,7 66:12 67:19 70:7 78:24 89:24 92:25 108:12,20,21 125:8 126:1,3,6 126:8,14 130:2 131:1,24 134:7 135:12,14,18,25 136:3,6 139:14 142:1,10 143:8 143:16 146:13 146:15,17,21 147:1,3,4,6,8,18 147:20 151:18 189:2,20 190:9 196:12 fund's 144:12 fundamental 147:22 funded 118:5 funds 24:12 38:9 38:15,18,18,20 38:25 39:3 46:3 47:5,24 53:6 56:19 60:20 63:2,11 66:5 67:12,14 70:11 71:16 73:18,19 73:25 74:1,2,6,9 74:11,23,25 75:2,7,10,13,16	75:17,18,18,20 76:4,12,15 77:5 78:16,25 79:1 79:20 80:4 81:18,25 82:7 87:5,8 88:18,20 88:22,25 89:14 89:21 90:10,16 90:25 91:19 93:13 95:12 97:23 102:16 107:13 109:20 117:21 118:8 119:13 129:17 130:3 132:20 134:23,24 135:5 135:18,19,20 141:8,10 143:4 143:7,13 145:18 146:12 148:15 148:17 163:11 174:1 187:3 188:24 189:11 189:22 198:23 198:23 199:2,12 199:14 201:16 204:22 207:25 208:4,14 fungible 208:4 funneling 63:12 66:4 further 52:14 60:12 62:1 63:16 78:18 89:19 103:16 111:2 112:7 119:25 149:9 170:23 186:18 furtherance 63:12 135:12	137:23 139:10 139:15 140:11 140:17 furthermore 182:18 future 101:24,25 138:6,7 139:6,7 g g 4:6 16:1 125:22 gain 188:17 189:6 game 152:19 gather 206:8 gay 14:4 geiger 157:16 167:21 168:11 168:11 geltzer 96:24 99:25 101:6,16 102:8 122:20 general 42:1 44:18,22,24 45:2 164:11 generalized 183:9 generally 103:12 149:20 getting 20:18 27:9 101:6 102:11 201:22 gibson 13:14 36:13 38:6 give 30:10,13,13 36:14 40:10,22 67:25 68:7 73:15,23 110:23 118:7 123:13,23 125:15 127:22 150:15 154:6
--	--	--	--

[give - gucci]

Page 31

169:17 185:18 193:2,7,12 207:9 209:5 given 24:13 44:23 73:1 94:1 97:10 100:8 107:10 128:18 129:13 131:12 150:15 152:7 153:18 154:23 206:1 giving 23:25 74:5 115:3 156:21 glad 124:16,17 glaring 53:9 global 10:16 11:6,20,25 15:18 123:21 124:25 125:1,6 125:9 126:1,4 126:12,12,17,25 129:2,4,23 131:18 globally 84:25 glynn 14:19 204:3 go 17:23 18:5 28:21 30:1 32:2 33:5,14 41:7 57:5,12 60:25 60:25 71:17 72:21 76:1 81:2 98:4 100:4 109:2,17,24 112:7,16 114:14 116:14 120:7 121:4 123:10 129:8,22,24 150:19 152:19	154:16 185:18 187:14 189:17 195:8 202:16 209:8 goes 69:19 71:17 107:21 169:7 184:2 198:3 going 17:10 29:10 32:23,24 34:6,7 35:25 56:14 57:17,21 57:24 58:1 59:15 60:25 61:16 76:20 84:13 99:8 102:4 103:21 108:7 113:24 125:15 129:12 132:2 145:13 152:8,22 170:22 173:21 189:13 199:14 201:18 204:9,13 good 16:2,8 17:9 17:22 25:23 26:16 36:7,12 36:25 37:18 38:3 44:22 58:6 58:7 68:8 69:13 71:3,3 72:9,12 86:1 96:11 100:3 120:17 122:10 123:13 123:16,18,20,23 132:9 154:1,5,9 154:13,15 156:23,23 172:3 176:3 184:17 187:19 188:21 201:9 202:12	203:22 204:1,4 204:6 goodman 128:5 gottlieb 15:17 123:21 governed 38:20 39:23 78:9 143:12 governing 44:17 44:21 175:21 176:6,25 177:1 177:6 government 162:5 190:6 191:7 governs 180:16 graduate 96:16 grant 56:16 granted 49:7 grasps 133:14 great 41:22 71:17,18 81:2 109:17 111:6 123:4 179:4 184:14 greater 130:24 gredd 131:10 147:11 green 3:24 greenwich 190:8 191:9 greig 5:9,19 6:25 7:12 grief 17:9 ground 101:6 grounds 43:5 44:2 48:10 49:10 72:25 75:25 79:5 80:15 85:20	93:25 126:23 group 66:13 87:17 119:11 125:9 130:3 190:8 191:9 groupe 56:3 groupement 9:6 37:17 38:10 42:5,19 45:22 49:16 54:21 59:25 60:2,4,5,9 61:6 62:11,19 63:4,9,13 67:13 70:23 72:2 74:1 74:3 75:2 79:22 81:20 82:6 85:16 87:5 88:21 90:3,3,6,7 91:4 92:25 93:15 106:9,19 106:24,25 107:5 107:9,11 109:20 114:13,25 115:8 115:13 116:16 117:3 118:1,10 118:12 119:19 119:22 groupement's 61:11,19 79:11 79:23 89:11 107:3,17 111:5 118:13 groups 106:19 growing 175:13 grown 98:20 grâce 51:25 guadagno 157:23 gucci 45:4
--	---	---	--

[guess - honor]

Page 32

guess 46:13 154:10 guidance 33:20 gulf 117:14 guy 35:2	hard 31:9 32:18 94:16,17 hardcopy 18:24 24:1 29:1,3,15 30:12,21	116:9 117:14 120:17,19 136:15 137:8 138:23 140:6 141:13 144:6 147:1 148:14 149:2 151:17 157:13 161:15 161:20 167:16 184:8 190:22 198:22 207:23	122:12,13,16 174:13 179:8 180:25,25 holding 137:2 171:22 198:23 holds 22:10 173:25 189:22 holistically 52:5 72:5 hon 4:6 honestly 46:19 57:20 100:18,19 honor 16:8,14 17:1,13,21,25 18:1,9,11 19:5 19:15 20:17 21:4,14 22:25 23:18 25:1,8,11 26:7,16,23 27:7 27:24 28:14,23 29:6,13,24 30:6 30:11 31:1,7,14 31:22,25 32:8 32:20,21 33:11 33:19 34:13,22 35:3,9,14,17,23 36:3,4,12,22,25 37:4,18,22 38:1 38:5 40:5,6,20 40:24 41:10,17 44:23 45:19 46:12 47:16 49:8,10 53:2 54:2,5,9 55:14 56:2 57:1,14 58:6,8,19,24 60:21 67:17,22 67:24 68:7,23 69:2,7,10,12,25 71:8,12,21,24
h	harm 67:9 131:11 harsh 161:24 haul 82:19 head 34:12,18 headlined 46:13 headquartered 41:24 44:20 45:20 47:18 hear 28:13 69:13 120:11 145:7 161:13 170:11 175:24 heard 93:17 94:17 121:16,19 121:20 122:5,25 145:10,10 152:12 185:21 200:14 201:19 203:20,21 hearing 5:4,12 6:5,9,21 7:5,24 8:3 9:16,20,20 9:22 10:1,17 12:1 20:2 40:20 41:3 78:21 94:1 94:2 142:17,22 heart 75:24 heavily 147:12 hedge 126:9 held 5:12 6:9 7:5 8:4 9:16 10:1,17 12:2 21:4,12 45:3 52:7,9,11 52:18 60:22	helped 80:3 helpful 40:6 193:2 helping 109:14 149:9 high 49:23,25 50:7 51:1,12,12 52:2 92:10 120:12 highlighted 59:8 67:21 108:5 highly 21:21,24 hill 183:23,23 184:1,4,5,9 hinder 127:18 128:21 133:2 134:2,8 138:5 139:5 148:3 149:18 hint 99:13 hinted 46:2 hired 51:18 104:24 110:9 history 23:19 hitting 172:12 hmm 34:10 hold 16:12,20 17:5,7 67:8 77:24 102:6,7	

72:8,14,22	189:13 190:21	i	immediately
73:24 74:10,21	195:6 197:5,11	ia 134:11,15,17	167:24
75:23 76:3 77:4	197:19,22	134:19 135:9,15	impact 60:19
77:11 78:2,25	199:16 200:15	135:25 141:1,5	149:19
79:3,25 80:24	200:24 201:11	146:16,18	impatient
82:15 83:1,24	203:1,3,8,12	idea 175:13	154:22
85:19,23 86:1	204:1,4,8 205:3	identical 84:1,8	impeded 107:14
91:21 92:3,9,24	205:9 207:13	160:24 161:5	impermissible
93:3,7,12,22	208:5,21 209:18	164:6	140:14
94:5,10 95:7,9	209:19	identified 22:9	implausibility
95:17 96:4,8,11	honor's 22:17	50:18 62:17	54:23
98:15 99:1,11	25:22 69:18	72:17 112:4	implemented
101:20 102:6,12	154:20 156:7	113:11 199:15	78:11 138:13
103:1,9,20,22	184:13 185:17	204:24 205:15	imply 177:15
104:3 106:5,13	196:7 202:20	identify 51:9	importance
113:18,23 114:7	hope 40:6 155:1	59:15,20 76:1	70:19
115:5 116:20	209:16	107:8 109:1	important 38:12
117:10,14	hopefully 204:9	112:10 119:17	39:9,24 49:13
118:18 119:7,7	hoping 184:14	120:15 206:6	58:19 59:20
119:10,24 120:4	horowitz 112:6	207:3,17 209:6	66:6 106:13
120:23 121:3	hosinski 14:19	identifying	127:13 169:14
122:4,6,22	204:3	51:10 109:7	170:11 173:8
123:18,20 124:4	host 40:10,11	116:10 185:9	208:9
124:6,19 125:15	hostetler 13:3	205:4,11	importantly
128:5 129:5,21	37:1 41:2 58:9	ignore 151:22	43:18 46:3 94:5
131:3,14 132:5	69:16 86:2	ignored 19:17	153:8
132:10,13	103:1 132:11	180:17	impossibilities
151:25 152:4,12	154:14 204:5	iii 11:21 12:1	52:13 53:9,10
153:25 154:9,13	hour 120:3	illegal 181:4,7	56:18,19
154:24 155:4,19	hsbc 183:23	181:10 182:11	impossibility
157:2 159:9	184:2	182:14 197:2	120:14
163:17 165:15	hundred 75:1	199:23	impossible
165:16,20,23	115:12	illegitimate	43:19 44:8 56:8
166:7 167:5	hundreds 169:4	128:3	107:7,10,12,17
169:11 171:22	205:12 206:11	illuminates	111:24 121:10
173:2 175:25	209:9,10	111:4	205:22
176:14 180:6	hyde 12:15	illustrates 50:13	improper
184:15,18	210:3,8	image 84:18	187:16
185:23 186:1	hypothetical	immaterial	imputation
187:2 188:3,5	22:25,25	168:24	199:6

[imputed - instance]

Page 34

imputed 106:24 182:21 199:8	incorporated 130:19 167:17 168:25	individual 25:22 59:1,23 80:13 80:14 100:23	195:10 206:23 207:3
inability 120:15	incorporating 158:6	individually 3:7 9:3 11:10,19,25 40:1 72:5 85:21 171:1 188:14 202:1	initial 52:24 53:7 55:25 56:5 56:6,7,10,14,20 70:8 73:20 102:3 106:9 116:3 118:25 121:12,12 131:9 132:2,7,15 134:4 135:11,24 136:5,10,17 137:22 139:11 139:14 140:10 140:11,16,24 146:18 147:6,18 185:15 187:1,21 188:1 190:4 191:4 204:19 205:4,24,25 206:5,8,13,15 206:18,21,25 207:4,17 208:14 209:4,12
inadequate 128:19	incorporation 45:1 164:25 167:14,25 168:1 168:4,8,9 169:16 184:20 187:7,16	industry 50:15 173:24	
inapplicable 140:6,21	incorrect 59:14 60:3,11,14 124:10	inequitable 144:17 145:21	
inception 64:11	incurred 148:1	inexpensively 168:20	
inclined 183:16	ind 171:24	inferable 173:19	
include 37:10 44:13 73:4,8 74:1 92:13 94:14 194:2,11 195:12 204:17	independent 62:4 83:19 84:15 161:6	inference 22:1 109:18 110:1 111:12 118:7,15 138:4 139:5 159:1 160:2,3,5 160:7 161:1,15 162:18,18 170:17 171:11 171:13 172:9,10 189:4 207:25	
included 23:19 52:12 54:11,18 66:3 70:9 75:9 92:12 97:14	indicate 181:22	inferences 58:23 104:18 106:15 106:16 120:20	
includes 21:11 53:21 59:4 66:11 70:15 100:1 106:20 185:5,6,10	indicated 181:22	information 16:22 20:12 22:12,20 24:17 25:4 29:16 31:11,11 34:21 34:23 35:8 68:13 69:8 100:24 109:12 118:4,7 119:15 122:11,15	
including 19:6 23:22 27:1 49:13 54:13 88:21 147:19 161:21 185:2,9	indirect 128:13 192:3 199:25 200:7,8		
income 98:6 111:6	indirectly 38:17		initially 38:8 175:13
incomplete 24:2 32:18	indiscernible 37:20 38:4 63:18 67:22 82:14 89:25 90:17 96:3 98:24 99:23 108:19 109:3 120:25 130:16 139:24 149:17 166:10 171:21 207:10		initiated 43:9
inconsistent 20:15 99:19 136:19 137:3,5 137:13 138:9 139:2	indispensable 162:19 165:9 166:15		injury 60:19
inconvenient 187:24			innocent 181:20 182:24 199:20
			inquiring 28:6
			inquiry 107:14 110:13 175:8
			inside 136:15
			insider 158:6 165:1 167:17
			insiders 117:19
			insist 176:16
			instance 34:5 50:18 56:4

115:5 instances 111:22 113:2 instantly 31:12 instruction 111:9 112:7 instructions 27:9,10 201:22 instructive 22:9 insufficient 33:17 53:3 79:3 82:2 85:3 111:20 integral 60:4 65:22 105:9 181:4,15 182:20 integrated 130:23 131:5 142:3 146:10 151:15 intended 139:5 intent 127:17,18 128:21 132:16 132:18 133:2 134:2,8 136:23 137:12,19,21 138:5 139:9,16 140:24 141:15 141:18,20 148:3 195:16 202:10 intention 67:16 181:22,23 intentionally 21:25 interdependence 84:10 interest 84:1 130:10,12 131:19,24 132:1 132:6 146:21	147:14,15,25 148:5,7,14,20 interesting 123:1,2 interface 93:14 interfere 100:20 intermediary 190:10 191:8 internal 108:23 international 6:7,14 8:1,9,19 8:20,21 13:22 16:10,18 18:13 37:10,11,12 60:13,13 73:8,9 75:14 76:20 78:5 86:7,9,19 86:20 87:24,25 88:6,12,13 89:9 89:13 115:18 172:21 181:11 181:11,25 182:6 internationally 60:11 interpret 177:8 interpretation 177:2 interrelated 119:12 interrupt 73:12 144:19,19 190:18 interrupting 125:10 intersection 205:15 intervention 26:5 introduce 17:15	introducing 77:8 89:10 invest 189:7 191:16,17 198:7 201:13 203:13 203:17 invested 38:15 64:6 72:1,3 75:1 92:24 115:13 118:14 130:4 132:20 135:15 188:17,20,24 189:3 191:18 199:2 investigation 51:18 52:1 54:12 70:6 90:23 110:14 186:18 investing 67:16 89:1 189:5 200:3 201:24 investment 2:6 2:17 3:3,14 10:9 10:25 11:15 24:11 38:24 42:18 47:9 63:23 64:4,6 65:9 68:5 78:8 78:11 79:9,11 79:14,23 82:9 87:3 89:5,11,12 89:12 90:4,5,17 91:19 104:9,21 105:3 108:22 109:4,15 110:5 139:24 143:21 144:5 155:8 173:6 174:5,7 184:11 186:6	190:4 191:4,24 191:25 192:13 196:13 investments 59:23 60:5,8,24 63:12 66:4 74:8 78:22 82:13 87:6 88:15,19 88:23 89:8 93:12 110:12 198:14,14 investor 82:5,5,6 137:24 141:10 192:3 199:25 200:8,8 investors 38:14 38:14 45:25 47:13 74:5,6,8 75:20 76:5,7,16 77:9,12 79:1 93:15 138:3 189:10 201:15 invests 174:1 invitations 21:1 invoices 117:5 invoking 172:20 176:23 involve 99:6 involved 23:14 89:20 125:14 140:7 174:9 involvement 118:9 169:2 involving 102:20 130:21 131:4 169:20 iqbal 160:4,15 161:20,22 162:6 162:6,20 170:6 171:5,5 188:22
---	--	--	---

<p>ireland 180:3,4 199:18,19 irish 182:25 irregularities 91:12 irrelevant 111:1 174:11 199:10 irving 2:4,15 3:1 3:12 8:14 10:8 10:12,23 11:8 11:14 12:5 37:1 58:9 86:3 islam 161:25 islamic 196:17 isolation 91:5 issue 20:3 22:19 26:18,20 28:2 30:5 42:25 44:6 47:10,12 53:17 88:1 90:17 94:10 96:22 101:14 103:15 103:23 118:25 120:10 121:9 127:19 132:16 133:1 134:7 135:11,25 136:6 136:11,24 137:11,22 139:11 140:25 141:20 142:17 144:20,23 148:6 148:20 149:5 155:23 160:5 164:14 185:1 187:6 188:2 189:17 194:14 195:22 198:4 200:11 201:23 207:25 208:4,12</p>	<p>issued 185:14 issues 20:14 21:15 24:16 26:11 38:11 57:3,16 58:2 71:23 90:24 101:13 103:2,3 103:10,12 104:3 127:13,20 163:19 184:20 187:4 189:16 208:10 it'll 36:1 items 49:9 53:9 ivy 131:3</p>	<p>judgment 202:23 judicial 61:21 129:6 138:19 157:20 158:2,4 159:18,20 178:10 judicially 131:13 138:12 138:17,21 166:1 july 19:14,14,14 23:9 june 19:9,13 130:8 junk 94:14 jurisdiction 24:15,19,23 26:9 33:9 35:19 38:11,22 39:1,7 39:7 42:2 44:4,4 44:11,14,18,22 44:24 45:2,7,8 45:12 47:8 48:10,23 49:2,5 49:6 55:13 57:18,19 58:11 58:13,17 59:6 59:11,18 61:3 62:16 63:16 67:3,18 68:18 72:10 80:15,21 81:6 82:2,16,17 83:11 85:22 86:6,9,16,18 88:2,5,14 90:14 91:6,13,15,22 91:25 94:24 96:15,17 103:23 155:14 164:11 169:12,19,21</p>	<p>170:3,24 171:1 171:4,12,13 172:2,4 174:14 174:23 175:18 176:9 177:12,22 177:23 178:2,4 178:7,15 179:2 179:9,15,20 180:6,13,14 181:2,13,15 182:1,14 183:1 183:8,12 184:4 188:6,9,11 191:23 192:5,6 192:8,16 193:14 193:21 196:10 197:10 199:22 202:14 jurisdictional 18:23 19:3 21:7 21:12 24:20 27:17,24 28:5 29:25 43:5 44:3 48:24 49:3 58:2 65:17 67:23 71:23 73:1,3,5 75:25 79:5 81:1 82:23 85:20 91:24 93:25 94:3,8 95:6,18 105:13,21,22 182:7 jurisdictionally 42:24 jurisdictions 83:16 jury 179:1,8,13 justice 172:15 172:21</p>
	<p>j</p>		
	<p>j 10:22 jail 161:24 january 9:22 129:9 jeff 6:6,13,17 7:25 8:8,12 14:2 16:8 18:5 jessica 13:10 86:1 jmds 73:5 joinders 103:16 joint 84:24 85:1 judge 4:7 21:15 50:2 52:7,18 88:3 91:9 94:7 120:16 127:2 133:15,17 137:8 157:15 167:23 174:20 178:10 204:11 judgement 151:5 judges 159:16 159:17</p>		

[k - korea]

Page 37

k	180:2 182:22,24	109:19 110:2	knowing 120:14
k 8:21,24 9:1,3,5	188:10 192:3	112:5 173:19	175:15 198:21
9:14	197:9,17	175:17 189:12	201:21 206:13
katten 15:2 37:5	keep 17:10	198:16,21 199:2	knowingly
keb 155:9,9,18	23:22 27:1	199:5 200:2,3,5	188:24
155:21,24,24	73:16 77:5	201:18	knowledge
157:9 158:13,19	89:13 112:20	know 17:7 20:6	49:16,21,23
159:22 160:8	128:12 206:20	20:7,10 23:20	52:9,11,20,23
163:3,12 165:19	keeping 45:24	28:24 29:5	73:21 75:1
166:9,24 167:3	61:10,13 200:25	32:14 33:1,7	82:11 103:11
167:8 168:3,17	kenneth 5:7,18	34:8,17,21,21	106:10,23 107:1
168:25 169:3,3	7:2,13	35:6,6 40:13	107:20 108:1
169:6,6,8,20	key 67:11 172:3	41:11 44:7 46:1	109:20 110:22
173:1,12,19	kick 32:23	50:11,14 57:7,8	110:24 111:13
174:13 175:14	kicking 41:8	82:22 92:1,17	111:18,21 113:8
175:18,22	kind 27:13,21	92:21,21 94:18	114:8,11 120:10
176:10,10,18,19	31:15 52:6,12	97:14,23 98:7	120:22 121:6
176:20,23	82:11 102:5	98:25 99:7,17	158:14 174:21
177:19,22,23	204:11	100:21 101:13	198:18 206:22
178:3,17 179:18	kindness 209:16	101:25 102:7,17	known 37:12
179:22 180:1	king 9:13 13:19	103:14 104:15	39:10 55:20
181:7,8 182:14	36:12,13,17,21	106:12 108:18	64:12 73:9 78:4
182:14,21 183:1	37:22,25 38:5,6	110:16 113:3	130:2 138:2,6
184:16 185:4,7	40:12,15,18	114:2 118:17	139:6 173:24
185:12,22,25	41:10,16,19,22	121:12 123:3	178:15 182:15
186:1,12 187:9	57:6,9 62:12	152:6 156:6,19	197:2
187:12,25	63:1 64:12	168:13,19 169:3	knows 44:23
188:14,17	65:22 67:1 69:2	169:3,8,10	168:20 173:2
189:20 192:13	71:9,11 103:10	172:14 175:12	176:14 198:10
194:14 195:13	105:25 106:4	183:5 186:23	208:17
196:6,18,22	107:24 116:4	187:11 189:24	knuts 15:15
197:1,6,13	118:19 120:1,3	190:15 193:12	37:18,19 96:11
198:11,16,21	120:7 121:2,18	194:1,4 198:4	96:12,19 97:12
199:5,8,25	121:20	198:13,16,25	97:19 98:2,13
200:3 201:21,23	king's 41:4	200:6,21 201:23	98:25 99:11
202:1,9 203:14	58:20,25 59:13	201:23 203:14	103:25 104:15
203:15	116:4	203:15 206:16	122:6,9,20
keb's 158:22	knew 107:1,3,5	206:24 208:5,6	korea 3:7 11:9
169:1 170:4	107:9,11 108:5	209:4	11:12,19,20,24
177:24 178:1	108:17,18		11:25 14:13

[korea - line]

Page 38

154:7,11 155:6 155:9 180:2,4 186:6 193:22 199:17 korean 155:6,8 183:1 186:19 kromer 47:8,10 krys 5:7,18 7:2 7:13	lastly 53:2 101:2 113:23 121:20 late 23:10,11 27:21 47:20 120:3 latin 170:20 launch 66:7 laundering 181:12,16 law 10:5,20 11:3 11:11 14:12 23:12 38:19,20 39:23,25 44:17 44:21 66:10 72:11 78:9 79:3 108:24 133:11 136:22,25 137:9 139:21,21 144:4 146:7 148:15 151:23 154:10 169:23,23 172:20 175:21 176:6,25 177:1 177:6,9,17 180:7,12,16,19 180:24 183:2,5 183:6 192:14 200:22 201:24 204:3 laws 109:8,9 lawyer 29:21,23 34:8 46:15,19 layers 117:13 leads 194:14 learned 18:15 23:12 100:19,21 173:12,14 200:6 200:8 leave 54:6 123:12 124:13	155:22 187:6 207:9 leaves 163:5 183:14 leaving 54:22 lebanese 180:9 180:20 led 28:17 ledanski 12:15 210:3,8 ledger 164:6 left 21:2 54:9 98:3 124:12 131:6 186:9 legal 35:4,5,20 35:20 106:4 133:20 142:4,7 146:4 170:9 190:11 191:11 210:20 legally 172:3 197:17 legitimate 134:19 135:6 141:2 lender 130:6 length 107:21 109:17 178:22 lengths 81:2 letter 5:4,15 6:5 6:12,21 7:8,24 8:7 9:21 16:3 19:12 23:2,9,17 25:9 letters 18:2 letting 65:22 levant 84:3 level 49:25 50:7 51:1,13 52:2 120:12	levels 119:9 leveraged 126:3 levered 90:3,7 levinson 138:20 levithan 157:23 lexis 168:10 liability 160:11 160:12 liable 122:12,13 liberty 15:20 175:5 licci 180:8,20 181:10 182:5,8 183:6 lied 107:7 lies 109:16,22 life 130:8 131:20 lifland's 174:21 light 17:8,9 86:15 114:10 205:14,18 limit 204:13 limited 1:13,21 5:1,6,7,17,17 6:19,23,24,25 7:10,10,11 10:16 11:6 15:18 23:5 25:25 45:17 47:6,15 54:14 76:22 83:6 86:7 87:25 89:9,13 115:18,19 123:22 124:25 137:25 limitless 67:2,5 limits 175:4 line 33:5,6 55:3 84:4 138:3 160:13 162:13
l			
l 1:7 2:5,7,16,18 3:2,4,13,15 8:18 10:9,10,24,25 11:15,16 13:11 15:7 184:10 la 8:24,25 9:1,2 9:2,3,5,5 37:14 lack 24:22 39:7 45:12 49:6 52:2 58:12 85:22 86:6,9 140:1 142:5 166:14 171:4 188:11 lacked 45:7 lacking 164:22 laid 150:2 lambda 6:23 7:10 landsman 14:24 204:1,2,7,8,13 207:12 208:22 208:24 209:2,18 language 122:1 137:3 138:9 139:2 170:1 langue 137:14 laplume 9:25 largest 23:18 lasting 87:1			

[line - luxalpha]

Page 39

163:7 lines 102:18 link 112:22 165:6 linked 115:23 linking 116:2 liquidated 79:10 liquidation 1:13 1:21 2:5,16 3:2 3:13 5:2,6,7,17 5:18 6:20,24,24 6:25 7:10,11,11 8:15 10:9,24 11:9,15 12:6 133:11 liquidator 5:9 5:10,19,21 7:2,3 7:13,14 8:22,23 29:17 liquidators 9:24 17:14,20 18:11 18:16 19:12 20:13,19,23 21:14,19 22:1,3 22:16 23:9 24:10,12 25:1,9 25:17 26:4,7 27:19 32:2,12 37:24 list 35:19 40:7 56:4 111:19 168:22,23 169:17 205:5 listed 77:20 199:7 205:12,15 206:12 listened 31:9 listening 105:14 201:8	lists 54:14 56:3 literally 24:20 116:11 litigate 182:3 litigated 88:1 litigating 25:15 litigation 21:4 21:22 22:10 23:14 104:6 110:19 117:22 177:7 187:5 littaye 9:6 37:14 73:21 80:14,15 80:16,20 81:12 81:22 82:2,4,8 82:10 85:21 86:8,25 87:2,21 88:23 90:12,19 91:1,1,7,14,16 92:20 96:7 105:5 107:14 110:13 112:7,11 112:12 115:19 littaye's 75:10 81:16 83:7 90:15 91:10 little 26:17 99:13 103:17 154:21 liu 9:8 llc 2:6,17 3:3,14 8:19 10:10,25 11:15 37:11 75:14,15 83:21 84:5,16 85:10 86:10,19 87:25 88:2,7,12 104:9 104:11 115:18 170:20,20 184:11	llp 13:3,14,21 14:19 15:2,9,17 loan 130:1,1,6,7 130:8 131:21 140:7 local 25:22 locate 32:4 located 76:5,6 76:19 86:21 190:13,19 191:6 191:6,13 location 10:18 log 46:13,20 logistics 19:24 lombard 202:20 london 42:20 long 86:25 98:3 150:19 154:20 156:11 171:17 199:3 200:4 207:14 209:16 longer 55:6 121:22 178:4 look 33:5,16 50:9,17 52:4 53:20 54:24 71:16 76:11 83:8,23 100:3 100:12 102:14 118:21 127:19 128:15,16 129:4 129:5 130:18 153:16,17 176:7 178:23 205:7 lookback 206:16 206:17 looked 59:12 98:23 185:14 looking 33:13 86:14 172:9	looks 58:21 loose 163:8 lose 111:11 138:4 167:19 loser 92:20,21 92:23,24 128:3 143:16 loss 152:25 losses 143:10 145:1 lost 18:14 21:18 82:9,12 lot 27:11,13 30:7 92:12 99:7 150:10 173:6 lots 203:18 lovely 209:16 lumped 57:20 lumping 71:20 103:21 115:2 lustig 139:23 142:12,21,21 143:1,1,3,5,9,17 144:2,21,22,23 144:23 145:3,4 145:10 153:5,5 153:15 lux 78:6,6 79:8 79:12,15,21 83:8 115:17 luxalpha 9:23 38:9 39:13,16 39:18 42:5,7,19 43:8 45:22 47:19 49:15 54:21 55:22 56:3,4 59:24,24 60:1,4,5,9 61:5 61:7,9,10,19,22 62:1,8,10,19
---	--	---	--

[luxalpha - march]

Page 40

63:4,9,13 64:5 64:11 65:10 66:1,3,17 70:11 70:12,23 72:2 73:19 74:1,2 75:3 77:9 79:17 79:24 81:19 82:6 85:17 87:5 88:21 90:6,8 91:4 92:25 93:15 106:8,19 106:24,25 107:2 107:5,9,11,16 108:9,12,13,16 109:4,7,20 111:5,10 113:24 114:13,24 115:8 115:14,23 116:3 116:16 117:2,25 118:10,12,13 119:19,22 luxalpha's 61:20 61:23 62:2 63:21 64:4,8,13 64:15 65:21 77:7 78:13 79:9 79:13,17 89:10 89:23,25 90:2 110:2 115:13 luxembourg 2:10 6:7,14 8:2 8:9,15,20,21 9:14,15 13:23 16:11,18 18:13 19:6 27:1 36:9 36:18 37:12,13 39:10 42:13 43:3,6 45:20,21 46:4 47:17,18 48:8,13,21	58:14 59:21 61:4,5,8,18,24 62:2,6,9,14,23 63:14,17 64:12 64:19,20,24 65:1,7,11,16,17 66:22 67:12,19 73:9,10 78:3,4,5 79:8 80:6 83:17 86:7 89:22 108:10,24 luxembourg's 63:8,10 lying 109:11,12 lyondell 170:18 m m 9:8 ma'am 69:13 96:7 madof 112:10 madoff 1:7 2:5,7 2:16,18 3:2,4,13 3:15 10:9,10,24 11:1,15,16 38:16 39:14,18 42:18,21 43:8 51:2,7,11,13,17 52:3,16 53:6,16 72:3 75:2,9 77:18 82:6,13 87:1 88:3 89:21 90:9,20,22 91:10 93:13 95:2,4,5 100:9 107:3,6,7,20 109:2,2,10,13 109:14,16 110:7 112:1,1,11,13 113:20 125:8 128:2,18 129:7	129:16 130:4,24 130:25 131:25 135:1 138:1,5 139:5,13 143:18 152:13 169:2 184:11 189:7,12 189:19,21,25 190:16 191:17 191:18 198:25 201:17,21 madoff's 52:13 77:21 104:20 110:4,22 111:3 111:7,13 112:3 112:15 135:1 173:5 magnon 37:14 magon 8:24 9:1 9:2,4 mail 39:14 mailings 47:12 main 22:23 66:13,14 132:13 maintain 90:25 135:20 maintained 31:23 43:5,17 190:5 194:15 maintaining 59:25 67:7 191:10 maitre 8:22,23 9:24 major 23:13 50:23 majority 127:7 127:8 making 38:3 56:15 65:8 74:8 78:12 98:10	112:2 149:22 184:21 186:23 managed 19:7 47:10 127:20 130:3 131:1 management 8:20 9:15 36:19 37:11 47:17,21 47:23,25 48:3 48:11,17,20 54:16 58:15 59:22 61:6,19 61:25 63:20,21 63:21 64:3,3,5,8 64:13,16,18,21 64:22,23,24 65:6,9,13,14,15 65:19 66:7,13 66:17,17 67:20 73:8 74:16 78:4 78:13 79:16 83:20 86:7 89:22 186:10,15 manager 47:19 55:22 61:7 64:13,15 79:17 79:23 89:11,12 89:23 90:2 174:6 189:20 190:8 198:12 managers 64:20 79:13 107:19 manages 174:1 managing 111:10 138:15 173:13 manner 152:25 march 130:5,9 146:16 163:13
--	--	--	---

[marine - misapprehension]

marine 180:20	meaning 42:19	mentioned 43:3	77:15,20 94:11
market 126:7	120:18	44:15 53:12	99:5,16 104:6
138:22 143:16	means 24:21	55:1 81:18	111:11 121:11
144:1 160:22	32:25 52:23	97:21 106:12	121:12,13,15
market's 144:11	56:7 78:15	110:4 136:16	125:7,17,21
144:16 145:17	119:5 137:12	139:12 183:25	126:21,21 129:3
marketed 88:17	meant 109:9	188:2 191:21	129:6,10,12,14
marketing 24:11	mechanical	202:17 203:15	129:15 130:7,11
84:24 85:1,3	126:15	206:23	130:12,23
markets 10:16	meet 19:23	mere 82:23 84:3	131:24 132:1
11:6 15:18	25:19 32:8,19	84:9,19,23 85:3	142:1 146:16,20
123:21 124:25	32:22,24 33:20	86:19 88:6,10	147:3,4,6,18,19
125:1,6,9 126:1	49:24	88:11	147:19 148:21
126:4,12,12,17	meeting 21:1	merely 27:9	158:23,23
126:25 129:2,4	42:22,22 91:12	43:10 105:8	159:22 160:2
129:23 131:18	105:4 108:21	merit 25:18	163:25 187:13
marshall 9:13	122:14	132:25	millions 82:9,12
13:19 36:13	meetings 47:6	merits 24:25	94:6
38:6	48:1 62:10	27:22,23 49:8	mind 18:5 73:17
matching	81:12,14,17,22	merkin 50:2	152:6 156:8
164:18	90:15,20 91:10	52:7 120:16,23	169:4
material 33:16	members 64:2	121:2	minds 200:20,21
math 121:15	memoranda	message 156:22	mineola 210:23
129:14	173:4 178:22	met 49:20	minimal 47:1
mathematical	memorandum	118:23 181:2	minimum 55:11
56:18	10:5,20 11:3,11	metadata 24:4	91:23 172:13
matter 1:5 28:1	170:4 173:2,9	33:1	175:8 179:20
36:6 60:15 79:3	175:25 182:10	method 144:5	182:23 183:13
136:18,22,25	189:18,19	michael 14:24	190:4 191:3
170:7 183:2	190:24 196:21	michelle 13:8	minnesota
matters 60:16	memorandums	37:1 41:1 69:15	139:21
123:10 190:11	173:7	102:25	minute 16:12
191:11	menashi 127:2	mid 47:19 129:9	68:21,24 154:3
mayer 117:11	133:15	middle 162:1	154:22 190:18
119:8	menashi's	midland 180:20	minutes 36:1
mean 29:16,17	133:18 137:8	migani 176:14	46:23,23 123:23
71:14 97:5 99:4	mental 49:24	million 23:21	204:9
102:14 156:21	mention 53:2	26:19,20 27:6	mirror 84:18
187:25 195:21	71:22 82:4 95:4	54:13,18 55:20	misapprehensi...
	127:14 190:11	56:7,8,19,20,23	208:7

[mischaracterizations - need]

mischaracteriz...	208:4	204:15	n.y.3d 180:21,21
173:12	monies 68:4,15	motions 10:6	name 16:7,18
misheard	79:19 84:12	170:8 184:24	17:18 18:8
124:14	95:15 99:3	197:12,15	36:10 37:14
misplaced	117:18,24	movant 203:7	45:19 46:2
133:18 139:23	121:23	move 72:24	69:14 72:20
140:5	months 129:9	80:14 114:18	101:25 102:24
missed 145:23	131:22 200:4	126:23 129:21	123:17 154:8
missing 24:3	moore 9:23	169:11 187:7	203:24 204:2
30:4 50:24	morning 16:2,8	188:5,7 191:20	named 51:19
103:8 109:4	26:16 36:12,25	192:10	126:1
145:8 203:11	37:2,18 38:12	moved 37:25	names 34:2,3
misunderstand	40:9 58:6,7 86:1	39:9 44:12 49:9	36:14 37:6 40:7
203:9	morning's 40:19	54:6 58:12 86:8	87:17
misused 141:9	morris 4:6	109:3	narrow 30:1
mittell 5:9,20	mortgage	moving 22:22	33:10 209:11
6:25 7:12	139:24	38:13 39:1,20	nation 137:2
mm 34:10	motion 5:5,15	43:4 48:9 49:8	national 162:1
moment 49:22	6:6,12,22 7:8,25	73:5 82:23 84:7	nationality
54:22 67:25	8:7,17 9:8,11,12	85:9 96:23	162:2
93:10 123:14	10:14,21 11:4	119:11 175:19	nature 30:4,5
154:6 178:16	11:12,18,23	muchin 15:2	138:2 139:7
183:4	20:22,23 22:5	37:5	192:12
moments 55:1	24:22 27:17,18	muffly 14:19	naval 96:16
133:24	39:6 45:11	204:3	navigate 22:19
money 38:16	46:16,18 49:6	multi 187:1	nearly 84:1,8
43:25 69:6	58:10,21 59:3	multiple 50:17	87:22
73:18 74:5,20	62:16 75:24	66:15 96:1	necessarily
74:20 89:17	86:5 96:9,19,20	108:11 109:7	28:12 173:11
97:6,18 99:8,14	101:21 124:5,21	140:22 146:9	201:21
109:9 126:5,11	126:19,22	193:22	necessary 22:14
129:15 131:7	132:14 142:18	mute 69:2,9	26:11 33:22
138:4 143:18	142:24 150:5	102:23 120:2	37:15 78:13,18
153:19 157:5,7	154:18 155:18	n	171:3,9 208:18
158:9 165:25	159:17 161:16	n 13:1 16:1	need 21:14
166:6,18,20	165:5,6 166:14	210:1	22:17 28:15,16
173:19,20	168:3,24 170:2	n.a. 2:21 10:13	29:9,9,11,11
179:25 181:12	171:3 172:2,2,4	10:15 11:5	32:13 33:7,16
181:16 189:13	172:6 197:14	n.y.2d 180:20	34:5 57:9 69:4,5
199:16 201:18	202:23,24 204:7		69:20 73:22

[need - numbers]

Page 43

82:15 94:2,24	145:18,19,24	182:6,12,19,24	112:2,9 113:20
95:8,13 116:6	153:10,13	183:2,2,4,5,21	117:10 118:13
117:17,22	178:11	188:16,24 190:2	144:2 149:21
119:17 122:3	never 24:23	190:9,10,13	notes 51:7
128:21 150:13	32:11 42:22	191:6,10,13,25	notice 5:4,24 6:2
157:10 200:10	78:25 111:7	192:12,13,14	6:5,17,21 7:18
202:22 203:9	147:5 148:16,16	193:14,25 194:2	7:21,24 8:12
206:7,8 209:2,8	148:17	194:9,11,15	9:11,20 19:19
needed 60:6	new 1:2 3:25	195:14,18,24	23:15 50:6
84:9 95:7	13:6,17,25 14:7	196:11,19,20,23	61:21 71:2
108:25 162:19	14:15,22 15:5	196:25 197:7	129:6 154:21
needing 202:18	15:13,21 35:13	199:7,13,14,19	158:2 159:20
needs 33:6 53:4	60:3,14,16,20	199:21 200:22	204:23
55:12 120:12	61:16,16 62:24	201:24 207:20	noticeable
154:3 160:1	62:25 63:14,19	newly 166:17	131:13
185:7 201:2	63:24 64:7,10	nine 169:22	noticed 51:17
204:18 207:6	65:18 66:25	183:10	notify 126:11
208:18 209:7	67:9,16 75:13	nominal 79:21	noting 51:6,14
negate 166:21	75:15 77:18	90:6	notion 49:1 95:6
negotiate 177:7	81:15,23 82:24	nominally 89:23	notwithstanding
neither 84:7	84:16 86:10,21	nominee 202:5	93:16 94:16
111:25 181:7	87:6,10,24	non 58:22 81:18	137:8
nemetz 6:15,16	88:10,15 89:2,8	89:21 92:12	november 63:22
8:10,11 14:10	89:20 90:13,15	105:21,22	126:21
17:15,16,20,20	90:19,21,23	158:11,14 166:3	nudge 162:13
17:25 18:2,5,7,9	91:8,10,12,20	166:22 170:8	163:6
18:11 26:23	92:11 94:13,21	175:5 180:25	nudging 161:13
27:6 28:9,13,14	94:23,25 95:2	182:2	number 16:25
28:20 30:9,11	95:10,11,16	nonsensical 26:2	19:2 21:9 24:10
30:15,18 31:10	97:22 105:3	norm 51:9	24:12 25:25
31:16 32:12,14	139:21 151:25	normal 27:22	28:4 30:16
32:18,21 33:9	173:14 175:21	north 10:15 11:6	49:11 71:13
33:11,19 35:16	175:21 176:7,10	15:19 123:22	72:24 83:10
36:4	176:17,19,20,23	notably 55:5	92:10 124:7
net 46:1 62:2	176:24 177:4,9	note 41:4 55:18	147:2 152:11
77:5 89:14	177:9,12,15	104:8 108:1	153:13 187:19
92:20,21,23,24	179:23 180:8,11	113:24 171:2	191:15 193:2,7
128:3 143:16,16	180:12,16,16,24	noted 36:22	194:24
144:4,5,6,7,11	180:25 181:1,18	70:11,16 108:5	numbers 124:15
144:13 145:14	181:20,21 182:2	108:12 111:25	168:21 194:19

[numerous - opposition]

<p>numerous 62:22 64:2 88:20 90:13 91:15 189:24 ny 3:25 13:6,17 13:25 14:7,15 14:22 15:5,13 15:21 210:23</p>	<p>odd 51:8 oddities 51:8 odier 202:20 offer 110:17 offered 23:5 offering 190:4 190:12 191:4,12 office 14:12 19:12 75:13 77:18 94:13,22 94:25 154:11 191:10 officer 80:23 81:5,7 96:24 97:7 99:17 101:4 110:5 offices 35:16 41:25 42:4 67:7 76:22 83:16 190:9 official 55:21,21 77:7 89:10 officially 64:4 offset 143:9,15 143:19 144:25 offshore 74:4 78:1 79:2 89:16 95:16 oh 17:2 18:2 26:24 32:20 57:6 58:3 114:6 154:16 okay 16:12,12 16:16 17:5,10 18:4,10 26:24 30:8,17,23 32:17 34:16 36:5 40:12,18 41:7,9,16,20,21 55:23 58:6 69:4</p>	<p>69:17,17,24 70:5 72:12 73:17,23,24 75:22,23 93:5 96:18 98:23 102:10 103:17 103:25 104:2 106:2 113:10,15 113:22 114:6 115:11 116:15 122:5,19 123:4 124:2,14,16 129:25 145:7,11 145:12,15 150:16,21 155:3 156:14,15,17,22 164:13,15 167:16 186:4,20 190:25 191:1,14 193:17 195:2,11 201:19 208:22 209:1,14 old 210:21 omissions 51:23 omits 89:4 omnibus 9:22 once 150:13 192:11 208:11 onerous 208:3 ones 39:19 125:19 184:22 197:14 onward 200:5 op 143:23,24 146:3 opened 39:16 109:4 opening 152:22 opens 111:2</p>	<p>operate 60:10 75:13 operated 47:10 80:17 84:11 87:4 106:19 108:19 134:12 135:9 139:13 152:25 operating 75:15 107:2 operation 63:11 87:18 operations 134:20 135:6 operative 54:25 55:3 operator 89:12 138:2 opined 189:9 opinion 104:24 123:2 125:25 137:7 154:2 170:9 172:21 201:15 209:17 opinions 170:14 171:23 202:20 opportunity 41:5 45:15 50:21 88:19 208:12 opposed 128:11 129:16 opposite 85:8 opposition 10:5 10:6,20,21 11:11,12 46:6 46:11 53:14 58:10 67:21 85:11 86:5 97:4 99:18 143:1</p>
<p>o</p>			
<p>o 4:5 16:1 210:1 object 156:10 objection 156:9 156:11 objections 19:22 obligation 32:6 99:20 102:7,7 198:13 obligations 20:15 148:18 observed 81:3 84:14 obvious 24:3 obviously 49:10 51:12 123:2 157:5 159:12 169:16 occasion 154:24 occasions 50:17 occurred 21:22 26:19 28:7 44:15 45:10 46:4,5 60:20 62:20 67:9 110:3 occurrences 171:19 october 18:19 18:19 33:4 35:10 205:1</p>			

[opposition - part]

182:10 188:13 196:7 202:19 option 114:1 options 66:19 107:6,8 110:7 112:2 orchard 175:14 order 12:9 19:25 21:15 22:18 25:5,9,15,18,21 26:1 28:11 60:7 62:6 80:20 101:15 117:15 117:18 159:1 168:16,23 180:11 189:17 ordered 21:14 22:7 198:13 orders 25:11 203:16 ordinary 31:24 181:19,23 182:25 oren 10:8 13:9 original 44:12 128:13 179:5 originally 27:21 108:19 125:9,17 originated 43:25 55:17 63:7 207:25 originating 115:24 osus 88:2 91:9 93:21 outcomes 178:12 outset 207:22 outside 24:19 60:18 76:4,5,6,8	76:24 77:12 78:10 80:2,5,8,9 80:18 83:15 85:17 86:24 94:19 95:16 120:15 136:15 outsider 117:12 overbroad 137:5 137:13,17,18 139:1 overlap 83:25 84:15,17 overlooking 109:8,11 overridden 180:18 overrides 173:11 overruled 174:25 198:20 overseas 44:20 overseeing 174:6 oversight 54:2 66:12 owned 87:22 ownership 77:1 80:21,25 83:24 84:1,5,6 87:21 88:8	92:1,19,21,22 93:7 97:21 98:14 115:11 page 21:9 23:8 77:4 85:11 95:24 96:3,23 97:4 100:4 102:15,17 152:22 190:19 190:23 191:2,3 191:8,9,11,13 193:2,3,6,9,10 193:15 194:5,6 194:10 201:15 205:5,7 pages 18:24 24:1 24:3 27:16 85:11 170:3 171:25 183:10 191:5 193:13 194:5 paid 54:20 71:18 71:19 73:18 76:8 99:3 118:11 119:22 130:7 138:7 139:7 157:6 158:9 159:12 166:2,3,4 panic 41:15 panicked 41:12 paper 21:1 92:14 papers 46:6,11 53:14 56:25 57:1 58:16 59:8 62:18 65:24 85:23 95:19,22 96:19 99:18 102:22 105:24	106:6 110:16 137:20 142:24 150:17,18,25 152:1 155:15 163:16,17 189:20 paragraph 42:11 50:16,17 50:20,22 51:5 51:20 53:18,21 54:11,18 55:1,1 55:6 61:23 66:9 66:20 70:3 71:13 77:9 99:15 116:12 134:15,18 135:2 135:23 141:9,11 168:21,22 188:1 188:23 189:1 193:15,15 199:11 202:9 204:25 paragraphs 53:18,20,25 71:17 134:13,21 135:16 136:1,8 141:3,6 169:5 169:21,22 parent 70:19 paribas 108:20 park 13:16 14:21 170:20 parrot 122:1 parsing 183:9 183:11 part 41:4 54:3 54:20 60:4 94:18 105:9 121:9 122:9 130:22 147:7
	p		
	p 13:1,1 16:1 pa 157:17 167:22 168:12 paccione 8:18 15:7 37:4,4,9,17 72:14,14,17,22 73:13,24 74:21 74:25 75:19,23 89:3,18 90:14		

[part - personal]

Page 46

148:10,16,16,24 153:7 155:22 157:10,14 181:15 192:23 197:3 199:9 201:6 203:12 partial 129:19 partially 28:14 162:2 participant 181:6,14 182:16 199:22 participate 200:7 208:12 participated 62:11 106:1 participating 64:21 66:1 particular 32:13 71:16 94:1 108:3 118:19 153:2 205:10,14 particularity 139:13 particularly 58:20 104:13 206:20 parties 18:3 20:17 67:10 94:4 105:23 142:2 151:21 174:16 175:7,10 177:7 178:12 182:1 partner 104:9 partners 8:23 37:13 73:10 79:7 86:8 90:5 parts 103:15 108:5 168:25	party 9:15 21:23 36:18 47:17,21 47:22,25 48:3 48:11,17,20 54:16 58:15 59:22 63:20,20 64:3,3,16,18,21 64:23 65:6,13 65:15,19 66:16 67:20 143:17 153:8 174:22 207:1 party's 143:21 151:16 pass 43:7 110:3 166:19,20 181:20 passed 132:8 190:12 191:12 passing 166:18 passively 48:4 60:10 passthrough 194:13 passthroughs 199:10 path 108:24 pathway 163:24 pathways 53:15 53:23 116:7,13 163:9,10,22 185:2,9 patience 154:20 184:14 209:15 patient 124:1 patrick 9:6 37:13 80:13 86:8 107:14 115:19	paul 9:25 135:4 pay 126:4,14 135:4,5 paying 166:17 payment 39:24 70:10,14 151:11 payments 116:24 130:10 130:12 131:20 132:6 134:25 135:22 165:25 166:24 167:3 173:15 179:22 182:25 187:4 payroll 97:15 98:5 pendency 179:10 people 17:9 34:2 34:3 50:18,21 52:15 74:5 82:10 100:15 109:10 120:8 122:15 124:13 percent 75:1 89:5 98:8,19,21 115:13 188:19 189:22 190:21 191:18 198:22 199:2 percentage 98:6 pereira 150:22 151:2,3,3,9 perfect 35:15 perfectly 41:18 205:2 perform 95:25 104:21,25 110:9 110:10 116:2 205:10	performance 64:8,9,9 79:16 107:18 126:6 performed 32:4 39:22 71:25 86:24 87:9,14 90:10 100:9 106:16 174:13 performing 45:23 period 46:8 47:3 56:9 79:9 80:17 99:6 102:2,19 114:13 130:8 131:25 173:16 206:16,18 periods 98:16 permissible 25:2 168:4 permission 17:15 40:21,22 72:23 156:7 permit 40:5 63:15 72:11 111:11 160:7 179:1 permits 106:10 147:13 160:5 169:11 178:25 permitted 146:22 perpetuate 109:17 person 32:19,22 33:21 35:11 156:22 177:3 person's 181:1 personal 24:15 24:19,23 26:9 39:1,7,7 44:11
---	--	--	---

[personal - pled]

Page 47

44:14 45:6 48:9 49:5,6 55:13 58:11,12,17 59:6,18 61:3 62:16 63:16 67:18 72:9 85:22 86:6,9 103:23 155:14 158:14 164:10 169:11,19,20 170:24 171:12 174:14 177:21 177:23 180:6 182:1 183:8 188:6 191:22 192:6 196:9 202:14 personally 82:3 135:1 personnel 87:9 perspectives 200:22,23,24 persuaded 184:14 peter 135:4 phone 46:7,9,13 46:21,22,25 47:2 77:19,19 phrase 93:24 161:13 physical 56:18 picard 2:4,15 3:1,12 8:14 10:8 10:12,23 11:8 11:14 12:5 21:4 37:2 46:15 58:9 86:3 117:11,14 118:3,21 119:8 119:8,11 123:15 142:12,20 154:7	163:12 189:10 201:14 203:23 picked 16:21 pictet 180:21 picture 117:9 pie 153:16 piece 192:9 193:21 pieced 200:13 piecemeal 188:12 pieces 49:12 200:13 pierced 81:2 piercing 83:11 place 20:6,21 25:16 31:9 32:18 45:1,1 81:14 85:17 93:19 95:16,16 104:23 109:24 135:7 182:2 185:15 placed 46:22 189:11 201:16 placement 173:2 173:3,7 189:18 189:19 190:24 196:21 placements 196:15 plain 104:4 114:20 137:3,13 138:9 139:2 168:2,5,9 169:9 187:17 204:17 plaintiff 1:14,22 2:8,19 3:5,16 22:13,13 86:15 88:4 120:21,21	156:3 157:21,21 158:3,4,8 159:21 160:25 161:23 162:23 164:20 166:21 167:1 168:16,19 168:20 169:4 170:24 171:2 172:1,9 173:8 174:8 175:9 177:25 178:1 180:15 182:10 184:5 205:8,21 plaintiff's 156:1 160:22 166:11 169:19 172:5 plaintiffs 5:23 5:24 6:2 7:16,18 7:20 94:5 160:17 170:12 175:6 198:8 204:16 plan 57:15 plans 206:5 plate 36:6 plausibility 188:22 plausible 106:17 111:12 117:23 118:7,15 121:15 129:13,15 132:4 160:14 161:14 162:14 171:10 188:18 189:25 191:19 plausibly 132:7 135:8,10 156:3 171:9 play 101:20	played 42:4 67:11 players 67:11 playing 66:11 plays 66:6 plaza 13:5 15:4 15:20 plc 183:23 plea 151:22 plead 52:8,11,22 53:4 55:9,23 110:25 111:20 128:21 149:6 207:23 208:18 pleaded 58:21 88:4 159:24 171:7 pleader 114:21 204:17 pleader's 171:20 pleading 86:15 114:18 116:5 118:20 149:14 163:8 166:13 172:3 207:17,20 208:2 pleadings 103:13 166:22 167:5 171:6 pleads 50:10 please 17:19 18:6 36:16 113:16 123:24 155:5 156:20 163:16 165:7 167:15 169:13 188:7 197:24 198:1 pled 49:14 61:1 88:9 90:12
---	---	--	--

[pled - presentations]

106:8,25 158:25 pllc 14:4 plus 130:17 pm 209:24 point 18:20 22:17 25:8 26:12 29:18 44:9 45:5 48:18 54:5 55:14 59:14 71:7,10 71:22 74:10,17 75:24 79:21 82:15 84:22 90:21 94:1 95:20 98:15 99:10 101:1 104:13 105:7 111:16 125:17 126:8 127:12,25 128:25 130:15 145:23 147:22 159:15 167:9,22 169:10,16 174:18 178:2,23 180:12 183:22 185:8 196:5,5 197:24 198:1,3 200:16 pointed 27:6 71:14 104:3 116:11,17 118:18 119:10 161:3 162:5 196:1 points 22:23 57:16 80:21 86:22 89:18 93:8 152:5,6,9 152:22 169:12 172:13 174:8	204:14 policies 22:11 policy 65:10 78:11 138:18 ponzi 23:19 51:2 52:16 101:24 127:4,9,10,13 127:14,21,23 128:6,23 132:18 132:21 133:3,5 133:12,16 134:12 135:9,12 135:20 136:11 136:14,17,18,21 136:25 137:2,5 137:8,11,16,21 137:23,24 138:1 138:1,8 139:1,8 139:8,10,13,15 139:16,18 140:8 140:9,20 141:2 141:21 152:11 152:13,15,16,17 152:18,20 181:9 182:11,13,15,16 pool 137:24 portfolio 47:19 61:6 77:7 79:13 79:17 89:15,23 90:1,2 portion 55:16 56:17 79:16 131:17 158:12 159:25 163:3 167:3 portions 80:25 84:24 position 22:14 28:4 107:23 131:2 140:9	155:15 168:7 171:17 174:16 205:23 positions 22:22 possibilities 160:6 161:11 162:11 163:6 possibility 33:4 33:8 158:19 160:8,9 possible 30:2,16 51:22 121:15 138:4 139:4 158:22 160:11 160:12,13 161:14 162:3,13 163:2,4 166:23 possibly 25:13 56:10 102:11 posture 151:4 potential 21:20 23:4 26:11 43:1 77:8 111:6 205:20 potentially 23:14 78:19 power 40:11 141:25 powers 146:9 ppm 173:18,19 173:23 174:3,8 189:21,21,24 190:5,14,15 198:22 practice 26:25 66:12 practiced 161:25 practices 25:22	pre 5:5,15 6:6 6:12,22 7:8,25 8:7 202:21 precedent 45:9 101:24 133:9 162:21 167:11 178:21 precedents 177:18 preceding 27:5 precise 133:8 precisely 20:25 22:16 147:17 205:1 208:10 predecessor 86:20 prefer 150:12 preference 128:10 140:15 prejudice 20:19 26:6 155:22 187:24 prejudices 20:21 21:18 premise 207:16 prepare 205:17 205:22 207:7 prepared 154:25 preparing 25:24 45:25 prerequisites 49:19 presence 178:15 present 87:24 105:4 presentation 73:23 160:6 200:16 presentations 74:7
---	---	--	--

[presented - produced]

Page 49

<p>presented 46:24 96:20 105:5 122:11 155:20 161:10 171:20 200:23,24 presenting 105:25 presents 111:15 preservation 19:21 20:1 22:13,18 23:6 24:18 25:5,12 27:20 preserve 19:7 20:20 21:22 23:15 26:10 preserved 19:10 27:3 28:16 92:17 preserving 23:10 preska 21:15 presumes 139:9 presumption 127:5,9,10,13 127:15 128:7,23 132:18 133:4,6 133:12,17 136:11,14,17,19 136:22,25 137:2 137:5,9,12,14 137:16,17,21 138:9,10,21,23 139:1,3,8,16,19 139:25 140:9,20 141:21 152:11 152:15 170:10 170:12 171:8 presumptions 138:12,14,17</p>	<p>pretty 85:1 120:5 prevail 150:4 178:12 prevent 109:10 109:16 177:10 previous 142:18 previously 66:15 66:22 70:11 118:13 200:25 price 190:4 prices 107:12 112:4 113:11 191:4 prima 59:18 63:13 86:16 88:4 91:13,22 primarily 35:3 85:14 primary 87:7 127:24,24 prime 130:2,5 131:24,25 132:3 134:7 135:12,14 135:18,25 136:3 136:6 139:14 142:1 143:15 144:12 145:18 146:13,15,17,21 147:1,3,4,6,18 147:20 151:18 principal 45:1 48:22 80:18 85:6 128:9,19 153:4 184:1 190:9 191:10 200:13 principally 175:5</p>	<p>principals 65:2 117:19 principles 133:11 printed 24:8,14 30:19 prior 49:12 52:24 74:7 96:14 163:20 171:23 172:1 174:25 185:16 185:17 197:16 201:2 private 16:6 112:10 173:2,3 173:7 189:18,19 190:24 196:21 privee 1:16,24 5:2 6:20 16:5 privilege 40:2 48:5 172:17 176:17 177:3,14 188:15 197:7 privileges 176:24 183:20 193:24 privy 65:3 pro 147:8 probability 52:15 138:18,24 139:4 probably 46:11 51:12 188:3 probative 170:2 probity 200:10 problem 53:8 105:15 205:3 problematic 101:24</p>	<p>problems 51:14 procedural 151:4 procedure 20:16 21:20 25:3 161:22 procedures 109:24,25 proceed 155:3 176:16 proceeding 5:1 6:19 8:14,17 9:11,22 10:12 10:14 11:8,23 12:5 16:4 21:8 108:13 124:9,18 140:7 148:25 178:1,5,8,9,16 178:18,25 179:4 179:9,14 proceedings 148:12 187:20 209:23 210:4 proceeds 136:4 process 32:9 126:15 175:4 208:16 produce 29:10 29:18,19 32:10 32:11 107:10 112:3 produced 23:24 27:4,15,16 28:23 29:1 30:12,19,22 31:19,20,22 77:16,21,22 92:2,10,11 94:7 134:20</p>
---	---	---	--

[product - pursue]

Page 50

product 19:8	132:24 133:8	provide 20:12	punch 41:15
production 5:23	136:7 142:9	22:12 38:20	purchase 134:14
7:17 18:23,24	146:22 147:1,8	101:8,11 107:21	pure 93:24
21:10 24:9	147:15,15 148:1	114:20 116:12	198:15
30:21 92:3,13	148:7,8,9,15,21	117:8,9 133:20	purely 60:21
92:16 94:18	148:23 150:24	177:21 180:1	76:15 77:1
117:2	151:24 155:13	provided 62:3	169:22
productions	155:25 156:2	72:6 88:25	purport 203:14
77:23 117:4	157:12 158:10	91:19 95:15	purported 46:14
profits 93:1	158:13,19	97:22 100:10	77:19 107:6,8
128:4,8,8	159:13 164:14	126:4	125:3,6
134:20 143:6,10	164:23 165:4	provider 70:2	purportedly
144:25	166:3,23 184:19	111:5 115:1	109:15 110:7
profusely	185:1,14 187:3	116:10	164:4
123:11	187:6 197:4	providers 38:17	purports 46:20
progress 200:21	proposed 19:1	38:19,23 59:24	56:4
promised 20:8	19:23 54:7 55:4	59:25 76:3,8	purpose 42:11
promote 89:23	108:24 121:21	83:18 84:13	87:7 89:16
promoted 88:17	proposing	85:21 106:22	108:14 189:5
promoter 42:7	155:19	109:21 110:2	196:3
42:12 65:21	proposition	114:24 115:8,21	purposeful
66:3,6 70:17	23:13 144:3	118:10,11,12	43:12 44:5 48:5
prong 81:11	proprietary	119:23	78:20 172:14
205:3	135:2	provides 147:24	purposefully
prongs 81:10	protect 90:7	providing 38:23	59:10
proof 83:9	107:19 108:14	63:5 68:16 76:4	purposely 40:2
138:15 149:25	175:5	76:10 79:2	43:15 63:14
178:18,18,24,24	protected 52:25	proving 54:23	66:24 89:1 91:7
179:3	protections	82:17 149:14	109:9 172:17
proofs 177:19	172:20	provision 176:7	188:14 193:23
178:3,6 179:18	protective 19:25	176:8,9,25	194:21 195:18
prop 135:1	25:9,15,18,21	177:1,6 192:15	197:6 198:2
proper 131:8	26:1	provisions	purposes 44:3
properly 46:12	protects 125:23	127:17	72:23 78:6 81:1
62:15 80:11	prove 83:10	public 138:18	83:3 125:4
167:17 179:12	105:7 149:7,16	pull 69:8 82:24	172:6 187:22
207:10	166:12 205:20	153:12	pursuant 81:16
property 56:10	205:23	pulled 56:1	pursue 106:10
103:13,15 115:1	proves 95:14	pulling 70:4	114:12
115:24 118:8,16			

[push - received]

Page 51

<p>push 160:13</p> <p>put 36:16,22</p> <p>50:5 71:1 72:20</p> <p>91:24 101:19</p> <p>102:15,22 123:3</p> <p>160:19 166:13</p> <p>166:15 168:21</p> <p>168:23 169:25</p> <p>172:13 201:5</p> <p>puts 23:14 173:8</p> <p>puzzle 192:9</p> <p>193:21 200:12</p>	<p>120:9 152:2</p> <p>203:5 204:9</p> <p>208:24</p> <p>quickly 150:21</p> <p>153:5 164:25</p> <p>168:20</p> <p>quite 106:18</p> <p>116:11</p> <p>quote 45:5 61:22</p> <p>77:9 84:1</p> <p>117:15 119:2,10</p> <p>152:24 185:16</p> <p>202:21</p> <p>quoted 93:24</p> <p>96:23 105:2</p> <p>178:22 203:12</p> <p>quotes 51:3,4</p> <p>52:17</p> <p>quoting 84:19</p>	<p>ranged 198:9</p> <p>rare 44:25</p> <p>rata 147:8</p> <p>rationale 144:23</p> <p>178:6,12</p> <p>reached 168:7</p> <p>183:3</p> <p>reaches 24:24</p> <p>reaching 62:23</p> <p>reacted 160:22</p> <p>160:24</p> <p>read 37:6 45:5</p> <p>100:5 113:3</p> <p>120:23,25</p> <p>155:16 173:1</p> <p>185:16 194:8</p> <p>reading 77:3</p> <p>150:8</p> <p>ready 124:2</p> <p>real 109:1</p> <p>realities 151:22</p> <p>really 27:24</p> <p>32:13 33:16</p> <p>42:7,17 50:10</p> <p>51:16 95:7</p> <p>101:24 102:6</p> <p>115:12 124:24</p> <p>129:2 131:7</p> <p>153:6,11 169:8</p> <p>184:22 186:9,23</p> <p>187:25 196:3</p> <p>206:1,2</p> <p>realty 137:10</p> <p>reason 24:13</p> <p>25:6 27:11,12</p> <p>30:3 31:15,17</p> <p>116:21 128:6</p> <p>138:15 151:18</p> <p>157:13,18 158:1</p> <p>168:6 170:1</p>	<p>187:19 189:8</p> <p>197:15</p> <p>reasonable</p> <p>21:23 60:22</p> <p>63:17 91:25</p> <p>161:16 162:18</p> <p>170:16 189:4</p> <p>197:10</p> <p>reasonably</p> <p>21:22 23:7</p> <p>140:1,3</p> <p>reasoning 127:2</p> <p>142:2,12 143:11</p> <p>192:4</p> <p>reasons 24:3</p> <p>26:2 56:24 81:9</p> <p>197:11 203:18</p> <p>rebut 59:2,13</p> <p>71:9 97:4 120:2</p> <p>142:25 149:23</p> <p>rebuttal 85:25</p> <p>93:5,5 102:23</p> <p>105:13 152:3</p> <p>203:5</p> <p>rebuttals 197:24</p> <p>198:1</p> <p>receipt 146:25</p> <p>157:11 185:15</p> <p>receipts 54:17</p> <p>receive 79:16</p> <p>87:7 89:17,24</p> <p>100:2 154:1</p> <p>156:2 158:19</p> <p>186:12,17 194:4</p> <p>194:11 196:12</p> <p>209:17</p> <p>received 39:17</p> <p>39:24 43:24</p> <p>53:13 54:12,15</p> <p>54:15,16,18,21</p>
<p>q</p>	<p>r</p>		
<p>quarterly 90:19</p> <p>90:20 91:10</p> <p>quashing 107:15</p> <p>question 28:22</p> <p>49:14 53:5 69:5</p> <p>69:18,23 72:8</p> <p>74:19,22 76:17</p> <p>111:15 112:18</p> <p>113:5 119:14</p> <p>148:21 165:2,3</p> <p>185:19 189:6</p> <p>209:3</p> <p>questioned</p> <p>127:4 142:18</p> <p>questions 17:23</p> <p>19:20 22:10</p> <p>25:12 26:13,14</p> <p>33:23 57:2,21</p> <p>67:24 73:2,15</p> <p>73:15 90:24</p> <p>96:5 97:10</p> <p>107:16 111:2</p> <p>119:24 129:20</p> <p>180:10 187:8</p> <p>188:5 197:18</p> <p>quick 33:6 35:25</p> <p>68:8 71:11</p>	<p>r 4:5 9:13 11:14</p> <p>13:1,8,12,19</p> <p>16:1 210:1</p> <p>rainbow 11:20</p> <p>12:1</p> <p>raise 127:25</p> <p>149:5</p> <p>raised 22:23</p> <p>23:21 31:25</p> <p>32:1 103:5</p> <p>104:19 110:3</p> <p>142:17 152:9</p> <p>189:16,17 198:3</p> <p>204:14</p> <p>rakoff 88:3 91:9</p> <p>94:7</p> <p>random 67:10</p> <p>range 112:4</p> <p>113:11</p>		

[received - reinvested]

Page 52

55:20 63:3 64:7 70:2,14,18,21 78:25 79:22 80:8 88:24 90:9 91:18 92:6,18 95:15 97:1 99:5 99:14 101:4,5 102:2,18 104:6 104:11,12 114:25 115:7,20 116:7,10,22 117:3,17,24 119:13,16 121:11,24 130:9 131:23 132:23 135:5,18 142:9 143:15 146:21 147:3,6 148:22 155:24 166:18 173:1 179:22 186:7,22 194:16 195:13 197:4 199:13 receiving 76:10 93:11 146:18 173:20 recess 69:1 123:6 154:4 recipient 96:25 128:7 recitation 188:21 recognize 45:18 174:20 200:17 recognized 111:23 recognizes 82:17 181:18 recommenda... 65:9 78:13	79:15 recommended 110:11 record 17:18 18:8 25:17 31:16 36:16 37:6,7,24 69:14 72:20 115:10 124:17 150:1 151:5 154:5 210:4 recording 16:20 recordings 17:7 records 61:11 62:17,18 65:4 70:23 77:22,22 92:14 98:5 116:22,23 117:2 119:18 205:19 206:24 recover 38:8 43:23 53:23 55:10,17 56:9 59:6 60:20 91:18 114:19 122:2 146:23 195:24 recoverable 54:19 recovered 53:1 recovery 114:16 red 50:5,10,18 50:23 55:3 111:17,19,23 152:12 205:14 205:18 redacted 195:9 redeem 126:13 redeemed 23:20	redeeming 200:3 redeems 126:17 redemption 26:18,19 27:3 28:2,7 66:21 173:15 187:4 195:7 redemptions 39:18 60:6,9 61:15,15 88:24 89:25 93:13 126:18 158:13 158:17,23 194:3 194:4,11,13 195:13,14,17 reduce 126:15 149:16 reers 84:20 refer 58:17 124:22,25 131:3 177:13 reference 93:9 93:10,16 130:20 145:5 158:4 173:22 177:6,14 184:20 187:7,16 187:21 199:24 referenced 145:5 151:9 203:17 references 95:21 189:21,24 190:1 referred 39:11 45:17 58:15,16 72:20 73:4 108:10 148:8 158:22 referring 37:10 104:15	refers 198:21 reflect 116:24 176:19 reflects 110:22 146:2 refusal 20:14 21:17 refuses 207:3 refusing 19:18 19:21 22:20 regard 75:7 79:14 81:5 85:24 87:15 93:21 regarding 60:23 90:24 92:16 133:8 136:14 147:23 179:13 187:15 188:11 register 45:24 61:13 173:5 registered 76:22 198:25 registrar 61:8 regrettably 167:7 regular 47:11 87:11 regularly 39:14 130:9 138:13,16 regulations 66:10 108:14,17 109:8 regulator 108:10 regulatory 42:13 90:8 reinvested 142:9 143:4,7,18
---	--	---	---

[reinvestment - research]

reinvestment 143:11	99:6 102:19 110:19 116:7	rene 9:2,5	requested 25:20 195:13
rejected 133:7 142:11 171:14 175:7 178:1,14 178:19 183:25 184:25 187:18 197:14,17 200:15,19	162:22 163:9,10 163:22,24 175:23 176:25 178:21 179:19 181:1 182:7,23 183:1,12 184:6 184:7 185:2,8	repayment 130:13,21 repeat 16:21 152:7,8 repeated 20:13 21:14 repeatedly 133:5,7 187:18	requesting 5:4 5:15 6:5,12,22 7:8,25 8:7 9:21 16:3 34:25 77:17 144:15 145:20
relate 28:1 40:4 71:21 91:17 197:9	reliance 133:17 138:22 139:22 140:5	repeating 154:22 replaces 55:8 replies 208:24 reply 11:3,18 48:18 152:9 170:4 183:10	requests 18:16 19:17 195:7 require 53:11 116:20 160:17 161:19 162:15 162:16,17 163:10 177:5 206:6 208:3
related 5:10 6:7 7:3 8:2 9:13,25 10:7,21 11:4,13 22:10 23:22 42:4,18 68:13 74:16 75:11 81:19,20 90:16 98:6 127:20 130:20 179:16 179:17	relied 51:4 147:12 relief 21:19,24 22:3,14 26:12 114:21 151:23 161:18 168:15 169:17 171:10 171:21 204:18	report 100:15 208:13 reported 100:19 107:4,11 112:4 113:25 reporting 122:14 reports 61:11 77:18 represent 204:2 representations 141:5 202:6 representative 5:8,10,19,20 7:1 7:3,13,14 represented 8:22,23 9:24 116:15 representing 16:9 74:24 request 5:23 7:17 18:12 24:10,12 25:18 90:9 207:8	required 52:20 62:7 77:5 84:19 89:13 104:5 105:6,10 116:5 133:3 136:23 150:4 160:1 170:7 171:15 207:16,21 208:2 208:20 requirement 49:24 66:5 88:7 187:17 requirements 32:25 42:14 55:10 requires 25:5 39:25 49:22 50:6 163:7 164:2 204:16 requisite 106:9 119:15 132:16 reread 121:2 research 98:11 98:14
relates 42:24 43:21 44:6 relating 97:23 134:4 relation 65:9 relationship 70:20 87:1,2 175:2 relationships 80:1 relatively 27:22 75:22 relevant 18:14 20:5,6 21:7 23:2 23:15,25 24:15 24:18 33:24 42:24 44:2 80:17 92:13	relied 51:4 147:12 relief 21:19,24 22:3,14 26:12 114:21 151:23 161:18 168:15 169:17 171:10 171:21 204:18 relies 47:7 100:4 religion 162:2 rely 57:1 106:5 150:22 158:25 remain 128:17 180:24 remains 137:9 remanded 161:24 remember 35:19 144:20 reminded 123:9 remotely 47:14 removed 78:18 79:14,18 render 153:1 rendered 76:17 77:12 78:1 80:11 85:16 138:16		

reserve 105:12	responsible	revenues 99:1,4	risks 190:6
resided 80:16	34:19 35:7	revers 180:3	191:7
resident 175:5	61:10,13 62:2	review 41:5 77:6	road 32:23 41:8
resisting 181:13	64:4 66:18	78:12 89:15	56:12 210:21
181:15	79:12	112:23 117:17	robbed 135:4
resolution 76:25	rest 85:23 95:18	reviewed 110:6	robert 15:15
resolve 20:3	96:5 102:21,21	201:2	37:18 96:12
26:6	150:25 151:25	reviewing	robust 183:19
resolved 178:9	155:15 197:19	112:25	rock 31:9 32:17
187:5	203:1	reviews 77:6	rockefeller 13:5
resort 128:23	rests 170:24	89:15	15:4
resource 137:25	result 70:17	revive 178:5	role 42:4 60:23
resources	78:25 83:23	revocable	65:22 66:2,6,11
166:12 179:11	95:17 104:11	163:13	66:11 78:18
respect 26:18	110:11 125:21	richard 11:18	81:5,6 90:2
63:9 103:5,13	140:14 144:16	11:24 12:3	104:12 108:22
103:24 105:17	160:16 161:5	14:17 154:10	roles 42:8 67:11
106:6 112:8,23	169:15 170:25	right 18:4 28:10	74:12,13 108:11
113:25 114:8,15	resulted 104:25	30:23 31:21	109:7 116:9
136:10 140:24	131:12	32:24 44:10	rosenamn 15:2
153:3 202:7	resulting 26:6	50:23 51:6 55:2	37:5
respectfully	results 100:10	57:20 69:4,8,20	rough 54:17
18:12 31:14	100:15 110:12	70:5 93:2 97:9	round 144:15
207:8	187:24	100:18 101:18	145:21 146:11
respective 83:16	retaining 34:19	103:25 105:18	routinely 182:1
respects 121:4	retention 22:11	105:21 113:13	routing 196:15
respond 19:11	retract 156:8	115:17 127:8	rukavina 9:24
20:22 25:8	retrieving 62:6	130:25 145:13	rule 5:24 6:2
119:15 129:22	return 63:4	164:15 168:13	7:18,21 18:18
161:8	80:10 122:13	168:13 169:18	19:19 21:19,21
responding	126:11 128:9,19	172:12 176:5	22:15 25:3,10
103:2	146:15 153:3	179:8,13,13	25:20,22 27:19
response 28:22	returned 147:5	181:9 187:14	31:13 32:6,25
32:11 112:7	returns 52:13	190:25 195:1,11	93:25 97:12
118:19	107:9 112:3	202:13 205:24	118:20,23
responses 9:17	120:14	206:4	153:11 161:19
10:18 19:22	revelation 23:13	rise 171:9	161:22 162:16
22:22	revenue 89:5	risk 50:16	167:18 168:1,24
responsibility	98:18,19	110:25 111:2,3	169:8 170:7
64:15			171:18 177:2

[rule - second]

Page 55

178:6,11 187:17 202:25 204:16 207:6 ruled 188:3 189:13 rules 20:15 25:2 73:7 108:23 127:22 152:19 164:24 168:3 184:16 ruling 33:7 127:7 139:20 165:16 rulings 133:10 run 55:3 91:1 127:20 137:25 running 190:16 205:14 rushaid 180:21 181:11 182:5,8 183:6	66:22 70:21 73:9,10,10 78:4 78:5 79:7 86:8,8 89:22 90:1,5 112:21,24 113:7 113:10 115:7,15 116:1,3 171:24 safe 49:20 52:25 123:4 125:22,22 sage 137:10 sake 98:10,23 sal 180:9 salary 96:25 sample 205:8 sat 48:3 91:3 satisfied 52:9,10 88:8 satisfies 133:25 satisfy 42:13 84:9 114:10 121:5 133:7 148:17 162:16 162:18 175:7 saved 20:7 saw 111:23 116:4 saying 29:22 31:11 32:12 33:17 52:15 68:4,17 95:10 99:13 101:10 125:12 152:15 152:17 153:16 163:23 165:11 175:25 186:14 202:9 209:8 says 22:24 23:3 23:10 42:18 50:14 51:11,22 70:3 82:8 99:16	101:5 126:15,24 158:3 160:5 170:8 172:1 174:3 176:9 184:1,5 192:2 194:13 195:4 197:1 199:12 203:9 scaffolding 38:24 80:3 scanned 18:24 30:20 94:17 scattered 123:25 scenes 65:23 schedule 12:10 scheduled 130:9 scheduling 19:24 scheme 23:19 51:3 52:16 127:5,9,10,13 127:15,21,23 128:7,23 132:18 132:21 133:4,5 133:12,16 135:9 135:12 136:11 136:14,17,18,21 136:25 137:2,5 137:9,11,16,21 137:23,24 138:1 138:8 139:1,8,8 139:10,15,16,18 140:8,9,20 141:2,21 152:11 152:14,15,16,17 152:18,20 181:4 181:7,9,10,12 182:11,13,15,17 182:20 197:3 199:23	schemes 138:1 181:17 scope 24:19 25:19 26:2 32:9 32:10 scores 95:4 screen 40:8,22 54:9 108:3 screens 107:24 scrutiny 90:8 109:14 sdny 5:12 6:9 7:5 8:3 10:1 se 9:14 36:18 39:10 55:19,20 64:13 search 19:1,7 searches 32:3 sec 109:12,14 112:14,16 173:5 second 8:18 9:12 10:6 16:20 17:5 17:8 23:24 25:23 39:11 44:17,21 45:3 50:12,24 53:19 54:8 55:7 56:2 59:4,8 66:8,20 67:20 68:1,8 69:7 71:22 77:10 78:2 92:5 97:20 98:19 99:16,19,24 100:1,5,22,25 101:7,23 102:14 104:24 114:23 121:21 127:3 132:19 138:8 140:6 144:3,4 144:15 145:21
s			
s 5:11 6:8 7:4 8:2 9:13,23,25 10:7,22 11:4,13 13:1 16:1 74:3 s&p 190:3 191:1 s.d.n.y. 84:21 157:24 163:13 170:19,21 183:24 184:12 sa 1:16,24 2:10 5:2 6:20 8:15,20 8:21,23 9:14,15 9:16 36:18,19 37:12,13,13 39:11,12 46:14 54:15,20 55:18 64:12,19,20,24 65:1,7,11,16,18			

155:13 157:18	54:10 55:5 61:9	sense 51:21	132:21 143:10
165:19 170:15	83:5 94:20 95:1	125:4 138:24	143:12 145:1
171:24 175:19	95:14 100:6	139:4 158:12	151:21 168:6
180:8,10 181:5	120:1,24 122:22	163:19	186:8
185:18 189:9	128:17 129:6	sent 31:2 33:25	separately 21:17
193:4,6 197:8	132:2 168:19	77:17,18 94:25	84:12
201:13 203:14	186:18 191:5	162:24,25 164:3	separateness
204:24	193:4 194:20	194:14	82:25
secondary 125:3	seed 175:13	sentence 167:24	september 4:1
125:7	seeing 41:17	168:22	18:17 20:9
secondly 63:20	62:22 68:15	sentry 1:13,21	64:14 162:9
166:9 203:13	seek 21:19 26:12	5:1,6,17 6:19,24	210:25
seconds 40:23	169:16 205:19	7:10 16:5,6	sequence 163:18
section 52:22	205:20,25	23:19,21 116:20	167:10
55:11 99:23	206:11	116:23,25	series 40:5 50:11
114:16 127:16	seeking 19:25	117:16,21 125:8	87:2 173:3
132:17 133:3,7	22:16 24:18	126:6 134:7	serious 20:19
133:13,25 134:1	25:9,21 26:4	135:11,14,19,25	50:15,19 51:23
136:10,19,23	27:19 38:7	136:4,5 139:14	181:25
137:3,6 138:10	53:23 66:4 67:4	156:25 176:12	serve 19:22 61:8
139:2 140:3,21	67:4,6,8 90:11	176:14 185:3,4	73:7 74:16
147:13,23 149:4	130:11	185:6,7,10,12	111:17 138:14
151:7 160:16	seeks 26:1 55:16	188:17,25 189:1	170:16
securities 2:6,17	56:8 59:6 60:19	189:5,7 190:5,7	served 18:17
3:3,14 10:10,25	91:17 134:5	190:12 191:17	19:19 63:21
11:15 49:17	169:17	191:25 196:19	65:21 77:7 78:7
50:2,8 52:3	seen 95:13	196:22 199:6,13	79:9
107:4 120:22	142:22 164:19	201:13 204:20	server 92:12
134:14 135:21	200:19	204:21,21 205:2	94:13,23 97:14
136:4 138:23	segregated	207:2,18 208:14	97:14
171:24 174:10	75:17,18	sentry's 116:22	service 38:17,19
184:11 189:12	segregating 85:2	117:19 185:15	38:23 59:24,25
190:2 201:17	selection 192:11	187:3 188:19	70:2,10 76:3,7
security 108:23	193:20	190:10	77:11 84:13
see 19:11,16	selendy 14:4	separate 19:13	85:21 106:22
24:5 25:6 32:3	sell 134:14	73:25 74:13	109:21 110:2
35:10 41:9,10	selling 52:3	75:14,19,20	111:5 114:24
41:18 50:14,19	send 194:2,3	76:24,25 79:2	115:1,8,20
50:19,20,21,22	sending 60:24	83:13,17,18	116:10 118:10
51:3,5,20 53:20	173:20	86:13 95:22	118:11,12

[service - situation]

119:23 served 67:12 87:5 88:18 services 9:15 36:18 38:20 39:22,24 45:16 45:20 46:2 47:6 47:15 58:14 59:21 61:4,4,7 61:18,23 62:1,5 62:9,14,23 63:5 63:8,10,14,17 64:14 67:19 68:5,16 70:14 71:25 72:6 76:4 76:10,17 77:25 79:2 80:9,10 85:15,16 88:25 90:10 91:19 95:15 97:22 101:11 servicing 87:8 serving 55:21 74:14 91:2 set 20:2 40:18 56:24 67:12 74:2 75:10 89:17 108:15 118:25 119:9 125:16 127:2 133:10,17 135:5 137:20 146:14 149:6,12 209:11 sets 124:24 setting 109:14 settlement 145:25 146:1,2 153:7 seventh 157:24	sfs 115:15 shapiro 118:3 share 40:8,18 57:9 83:19 179:22 shared 41:7 110:12 shareholder 45:24 66:13,14 202:8 shareholders 61:14 shares 126:9,13 155:11 sharing 40:9 sharpe 140:5,6,7 140:8,10,13 sheehan 10:22 shell 87:10 95:20 sher 15:9 96:12 sherman 160:16 shifts 149:23 shock 82:13 shoe 172:22 shoes 207:1 short 110:14 114:20 120:4 168:2,5,9 169:9 187:17 204:17 shortly 40:19 41:3,3 133:19 shove 105:3 show 25:23 61:2 63:9 66:24 75:21,22 83:4 116:6 120:12 161:18 163:24 166:14 190:16 191:24 195:15	206:12 208:13 showing 21:2 54:9 84:9,23 85:1 86:16 88:5 91:22 102:15 114:21 149:24 163:10,11,23 183:20 192:12 195:7 204:17 shown 61:2 151:6 162:6 shows 30:20 173:12,25 188:9 192:17 193:22 195:14 197:6 shuffling 65:24 shut 91:11 sicav 9:23 74:3 side 32:12 41:11 50:23 54:9 55:2 112:9 126:24 129:21,25 sides 25:13 153:11 sidestep 139:18 sidestepped 19:17 sigma 5:7,17 6:25 7:11 signal 205:19 signals 65:15 signature 210:6 signed 12:9 39:15 64:18 78:9 180:1 significant 30:3 55:16 signing 65:24 202:4	signs 50:20 107:13,15 similar 22:6 45:3 85:15 104:25 119:8 144:24 160:25 197:14 similarly 136:24 139:23 196:18 197:17 simple 30:5 147:3 204:16 simplest 83:5 simply 19:17 24:25 33:16 53:5,9 54:2 65:23 67:8 76:16 111:4 138:10 160:6 177:13 203:16 204:25 205:5,12 single 25:24 46:7 77:16,19 77:20,25 87:4 87:18 93:17,19 134:23 135:19 137:1 141:8 151:6,12 178:10 178:10 sipa 2:5,16 3:2 3:13 10:24 sipc 141:15 184:10 sit 154:25 sitco 21:5 sitting 204:12 situated 143:2 situation 128:20 143:14 179:15 195:19
--	---	--	---

[six - stated]

Page 58

six 19:2	57:20,23 95:11	specifically 76:2	squirreling
size 126:16	101:12 126:15	103:5,24 107:4	128:11
skepticism	128:12,16,18	134:9 135:13	st 13:24 14:14
50:19,20	130:16	138:23 140:25	staff 35:20,20
slide 116:4	sorting 40:7	149:15 178:8	40:14,17
slides 50:11	sorts 190:1,16	188:16 193:25	staffed 65:1,11
sloppy 51:22	sought 24:10,12	197:8 202:3	stage 33:18
smaller 209:11	148:13 192:4	specifics 206:10	104:5 110:19
snacks 155:1,1	sound 17:6,6,9	specified 199:17	114:17,18 116:5
sole 9:4 26:1	165:5	199:18,18,19	117:21,22 187:5
90:21	sounded 165:4	specify 207:17	202:21 207:17
solely 5:8,9,18	sounding 123:8	speculate 203:19	standard 49:23
5:20 7:1,2,12,13	soundly 167:11	speculating	49:24 58:20
55:15 62:3 68:4	source 94:22,23	31:16	59:3 106:14
75:6 106:19	157:5,7 163:3,5	speculation	118:21,23
solicited 89:24	166:23	198:15	120:12 167:5
solutions 210:20	southern 1:2	speculative	188:22 191:19
somebody 29:9	149:12	170:9	standards 20:16
29:11 100:11	spam 92:12	spell 37:15	122:4
177:11	spanning 205:6	spent 117:16,21	stands 207:2
someplace	speak 41:22	122:9	stanford 66:21
159:14	73:6 74:12	sperate 83:20	start 61:3 73:24
song 204:4,5	83:12 120:11	split 174:3,7,9	76:20 125:5
207:12,13	speaking 81:14	175:16 189:23	206:7
208:22 209:19	107:25	191:2	started 23:10
sonya 12:15	special 127:22	spoke 34:3	98:3
210:3,8	specialist 34:7,8	spoken 33:24	starting 128:1
soon 206:6	specific 20:23	35:3	starts 193:1,11
sorry 26:24 29:6	21:21,24 22:10	spoliation 21:20	state 16:6 17:18
47:16 53:18	27:2 28:1 30:16	22:24 23:4	36:10 49:25
58:3 69:22,23	31:25 32:4 44:4	26:11 30:2	55:13 60:15
102:25 103:9	71:18 88:14	sponsor 65:21	69:14 85:7
105:20 108:10	89:6 91:15	66:3,5,11 70:17	123:17 136:9
113:7 115:17	101:18,19 102:9	108:21 109:5	139:21 154:8
144:18 159:4	113:17 116:2	sporadic 81:17	172:18,19 175:4
172:23 185:11	118:17 119:17	90:16	175:10 199:21
190:7 192:21	133:1 134:4,7	spring 18:22	202:3 203:24
194:6 197:25	137:22 141:20	spv 88:2 91:9	stated 64:12
sort 31:9 32:17	170:1 180:19	93:21	66:15 107:10
33:22 51:16	193:12		173:17 174:17

[stated - subsequent]

Page 59

205:21 statement 41:4 104:4 111:12 113:20 114:20 159:24 167:3 168:2,5,10 169:9 171:16,18 187:18 198:6 204:17 statements 45:25 61:12 110:18 112:25 117:5 119:20 141:10 163:21 169:23 states 1:1 3:23 5:11 6:8 7:4 8:3 10:1 20:24 21:3 21:7 24:22 26:8 28:1 33:15 39:3 39:5,21 40:3 41:25 42:2,4,15 43:6,21 44:19 44:21 46:5,8 47:5,6,11,14,25 48:1,1,2,6 49:2 59:10 60:18 63:2 72:2 76:4,5 76:6,9 77:13,24 78:10,19,21,23 79:5 80:2,5,6,8 80:9,10,19 81:13 82:20 83:15 85:18 86:24 93:19 155:10 162:8 190:5,13 191:9 191:12 193:24 196:15	statistics 164:1 208:19 status 84:19 85:4 stearns 147:11 148:7,13 149:3 149:9,12,21 150:2,6 steel 131:4 steen 15:17 stemmed 87:20 89:5 stemming 87:1 88:3 step 21:23 79:14 79:18 100:17 stepped 65:24 stipulated 168:23 stipulation 12:9 stocks 190:3 191:2 stolen 132:23 136:7 147:1 stone's 172:21 stonewalling 20:13 stop 97:9 112:13 stored 18:15 19:8 29:15 stork 13:11 37:3 57:17 58:1,3,5,6 58:8 68:2,7,11 68:19,23 69:5,7 69:10 70:11,16 71:4,8,23 72:5 straight 67:15 stranger 206:21 strategic 90:20	strategy 51:21 51:24 65:10 107:10 112:3 113:20 174:4,6 174:7,9 175:16 187:2 189:23 190:2 191:1,2 stray 197:16 streamline 150:11 street 15:11 35:17 stretches 49:5 strict 162:7 strike 168:24 174:4,7,9 175:16 189:23 191:2 striking 22:4 strong 50:4 52:19 120:18 strongly 23:6 150:22 184:3 structure 57:22 66:6 83:2 108:16 109:18 stuck 20:13 99:21,22 sub 173:23,24 173:25 subject 28:1 34:24 42:1 44:18 59:11 86:18 96:15 102:5 121:7 126:19 131:8 177:11 subjective 49:24 subjectively 51:1	subjects 178:7 submit 54:1 67:17 72:10 submits 192:1 submitted 23:9 46:9,11 83:4 92:23 submitting 192:2 subparagraph 121:21 subscriber 202:4,7 subscribers 129:16 subscription 27:5 166:18 175:22 179:25 180:5 192:10,21 192:23,25 193:5 193:9,16,19 194:1,10 195:5 196:24 199:16 202:3,8 subscriptions 39:17 61:14,15 89:24 93:11,11 subsequence 53:4 subsequent 38:8 42:25 43:23,25 44:7 46:25 52:24 53:7,13 54:13,19 55:11 55:16,24 56:9 56:15,20 70:2 81:20,24 93:22 97:2 99:7 101:20 102:20 114:17,19,25
---	---	--	--

[subsequent - syz]

Page 60

116:20 117:7 118:5,15,24 119:13,18 121:7 121:11,14 132:22 146:25 151:16 155:17 157:2,8,14,19 158:2 159:8,9 159:10,12 162:24 163:3,20 164:3 166:17 167:18 175:1 176:15 184:23 185:13 186:25 189:14 195:23 197:4,12 204:24 206:17 207:18 207:24 209:5 subsequently 70:7 119:3 147:19 204:21 subset 73:3 substance 101:16 substantial 50:1 51:2 63:24 120:13 157:7 substantially 18:22 19:3 135:15 189:11 201:17 substantive 10:13 90:13 substantively 2:4,15 3:1,12 10:23 succeeds 149:22 successful 82:12 successfully 149:22 151:6	successor 65:25 sue 176:11,12,15 201:25,25 sued 176:20 192:13 202:1 suffice 160:7 sufficed 174:23 sufficiency 86:11 103:12 172:7 sufficient 71:1 80:25 81:23 82:19 91:5,13 95:10 119:6 133:6 136:9,16 139:15 140:23 141:14,17 147:9 161:1,12 172:3 172:23,24 176:21,22 183:11,17 187:21 189:15 198:18 202:14 202:24 sufficiently 86:17,25 90:12 90:18 suggestion 89:20 133:10 suggests 23:6 95:11 suing 196:4 suite 15:12 210:22 sum 26:4 101:16 sumitomo 3:18 12:6 14:20 203:24 204:2,22 205:2,22 206:20 206:21 207:7,19	208:15 sumitomo's 204:15 summary 92:5 151:5 171:18 202:23 superiors 100:11 supervision 61:19,25 supp 157:24 support 11:3 84:19 91:6,15 107:22 111:18 114:11 133:9 136:20 139:18 140:23 141:14 159:25 171:19 175:18 199:22 207:25 supported 138:24 139:3 161:4 167:11 202:22 supporting 83:9 133:16 supports 140:8 supposed 27:25 30:1 supposedly 48:13 85:12 151:15 suppressed 110:15 supreme 44:16 122:3 138:21 160:3 162:15 166:25 170:13 171:14 174:16 174:24 175:1,11	177:17 182:21 sure 16:23 18:1 31:10 34:4 36:11,17,17,22 37:9 38:3 40:15 57:6,10 68:10 73:13 74:7 79:6 90:21 93:8 98:25 99:1,7 112:19 115:10 122:8 124:8 185:20 187:15 190:21 195:3,11 surmise 202:10 surmising 202:12 surprise 82:13 surprised 19:5 208:15 surveillance 77:6 89:14 survive 161:16 170:7 survives 56:13 suspicion 50:4 52:19 120:19 suspicious 50:10 sustained 149:24 swap 125:13,14 125:24,24 126:2 126:3,10,11,16 swiss 41:23 112:10 switch 64:20 switzerland 41:24 symmetry 84:18 syz 187:2
---	--	---	--

[t - think]

Page 61

t	127:18 128:3	test 52:10	120:10,11 124:7
t 210:1,1	129:2 131:19	136:12 172:13	144:24 170:15
table 125:16	145:14 190:19	179:20 183:8,18	173:4,17 193:6
172:13	talks 84:23,25	testify 25:25	things 50:14
tag 102:10	199:12	29:20 34:20	51:5,8 61:13
tail 173:5	tams 11:20 12:1	35:6	63:18 66:3,23
take 33:5 35:25	tasked 65:8	testifying 29:9	71:11 83:10
40:22 61:21	tasks 63:11,12	29:11	99:12 129:5
68:21 72:4	teams 83:20	testing 172:2	162:15 199:7,24
73:22 81:14	tease 58:25	text 137:6	200:1,1,2
100:12 126:5	ted 99:3 102:4	thank 18:7 36:3	201:11 204:19
129:5,20 133:24	102:12,16	36:4,5,20 37:16	think 26:14,22
137:11 154:3	telephone 39:15	38:3,5 41:10	28:9 29:16,25
158:1 159:19	62:13	68:23 72:11	31:1,15 32:10
200:11 205:18	tell 16:24 18:4	102:22 120:1	32:13 38:11,12
209:8,9	18:20 19:15,18	122:23,24 123:1	39:9,25 40:10
taken 24:20	33:1,12 34:7	124:6,19,20	41:16 43:12,14
58:22 80:1	41:13 68:12	145:11 150:12	46:16,18 49:4
86:23 104:18	73:14 92:7	151:1 152:2	51:15 54:3 58:7
105:23 106:15	109:16 192:19	184:18 188:8	58:19 60:3 68:1
110:20 114:9	193:13 199:4	197:18 201:7	68:8 69:4 71:23
158:5 188:18	206:14 209:12	203:2,22 204:8	72:8,23,25 75:3
takes 57:8	telling 35:22	207:12,13	75:24 78:6
110:23 164:19	105:1	209:15,18,19,20	82:15,16 83:4
183:20	tells 199:3	thankful 79:7	95:17,18,21
talk 33:3 34:8	ten 68:21	thanks 132:10	101:16,23 104:2
35:2,2,11,11	tendered 55:5	208:21	105:12 108:8
40:14,16 45:16	tendering 54:7	theodore 9:9	114:8 120:8
64:1 68:11	tens 95:3	15:10 37:19	125:4 126:22
77:15 78:3	term 173:25	96:10,13	128:22 129:13
123:10 133:24	199:3	theory 38:23	129:18 130:10
talked 34:16	terminated	48:19 138:22	130:14,15
159:6	130:6,7	141:14,18,22	131:14,15 132:3
talking 30:14	terms 73:7	179:11	150:16,21 153:9
31:2,4,5 33:9	94:19 95:20,22	thereof 5:9,10	153:9 155:25
35:21 38:17	98:2 152:9	5:19,21 7:2,3,13	165:3 186:21
69:3 93:18	171:12	7:15	191:3,15 193:4
96:17 105:18,19	terrorism	thierry 9:1,2,4,5	194:23 197:9,20
112:20,21,21	181:11,16 196:2	thing 92:6,7	201:1 202:13,21
113:19 122:10		98:25 100:18	208:6

[thinking - transactions]

thinking 94:8 111:8	tickets 51:23 78:12	today's 72:23 78:5	132:4 207:21 208:1,13 209:12
third 9:15 24:17 36:18 47:16,17 47:20,22,24 48:3,11,16,20 54:16 58:15 59:22 63:20,20 64:3,3,16,18,21 64:23 65:6,13 65:15,19 66:16 67:20 79:6,6 81:11,12 132:22 155:14 158:1 174:16,22 175:6 175:9 177:19 193:9 197:10	tie 159:21 160:2 163:8,18 tied 64:8 186:25 ties 165:24 time 19:4 27:20 33:5,8 44:14,15 44:17,22 45:10 54:8 56:14,17 59:14 65:5 79:9 81:13,13 96:21 98:3,16,21 99:6 101:1 102:2,19 103:18 109:1,5 113:16 122:10 129:9,22 140:19 142:13,14,17 150:19 164:6 170:11 178:17	told 19:4 100:11 109:22 112:16 123:12 165:4 206:18 tolerances 111:1 topic 49:11 53:2 topics 19:23 25:25 155:12 tort 93:23 174:18 tossing 175:13 total 27:16 46:23 55:24 56:5 98:19 99:4 totaling 125:7 205:6 totality 59:12,16 61:2 62:21 63:15 66:23 86:14 91:6 107:25,25 152:24 183:7,13 183:18,19 188:8 191:23 192:17 197:5 199:9 totally 31:5 touch 20:5 64:1 106:3,4 114:14 150:24 184:18 touched 103:14 tpm 58:16 79:13 115:7,15 trace 117:18,20 tracing 53:6 54:23 68:12 116:2 121:8 127:25 128:25 129:1 131:17	track 200:25 trade 78:12 112:5,9 113:11 113:12 135:21 traded 120:22 trades 107:6,12 110:7 112:2 134:17 trading 49:17 50:1,8 100:9 104:20,22,23 107:10,17 109:1 110:4,6 111:24 112:24 120:15 135:2,6 174:9 174:13 190:6 191:7 traffic 27:13 205:19 trail 21:1 28:11 28:15,15,24 trains 127:16 transacting 39:3 39:4 transaction 24:1 24:1 27:2,5,9,14 27:15 30:5,6 130:23 131:5 142:3 143:12 146:11 147:2 151:11 152:21 153:2 196:11 206:13 transactional 43:15 transactions 43:7 107:4 117:12,13 126:8
thought 17:8 27:18 103:18 145:8 thousands 95:3 205:5,19 threat 160:23 161:8 three 22:23 36:1 39:8,19 48:24 58:13 59:16 71:25 73:6 76:1 76:18 77:14 93:18 97:5 123:3 124:23 125:18 129:9 132:13 149:6,13 152:5 155:12 175:11 180:18 180:24 182:4 192:24,25 199:21 202:2 throwing 92:10 175:15	timeframe 23:2 timeframes 116:9 times 19:2,13 33:21 78:15 95:24,25 107:12 116:11 165:17 170:13 174:3 200:14 today 17:16 19:24 20:12 22:17 25:7,9 37:24 45:2 56:16 57:15 58:10 72:25 96:21 105:20 106:1,18 110:17 116:11 125:19 126:19 155:1 202:12		

136:5 143:23	207:19,24 209:4	125:7,18,23	206:14 207:7
144:14 146:10	209:5,13	127:24,25	208:6,15
151:15,21	transferee 97:2	128:17,22	trick 128:24
153:18 181:19	101:20 102:20	129:12 131:25	tried 20:2 42:20
181:20,24 182:6	149:13,16,22,24	132:2,16,23	42:21 82:21
195:21 198:12	163:21	133:1 134:2,4,7	tries 53:18 97:4
199:20 206:11	transferee's	135:11,24 136:3	116:1 190:14
transcribed	149:24	136:5,10 137:22	trigger 136:17
12:15	transferees 53:7	137:23 139:9,11	triggers 23:14
transcriber	53:7 73:20	139:14 140:11	trillions 181:19
156:19,21	106:9 125:4	140:24 141:20	trip 146:11
transcribing	159:10,12	143:15,19	trouble 51:10
156:22	162:24 176:15	144:14 145:20	true 29:14 45:10
transcript	transferred	146:18,25	53:8 58:23
142:22 210:4	64:15 68:15	148:13 149:10	104:18 106:15
transfer 42:25	70:7 119:3	151:18,22	110:20 152:9
43:25 44:7	147:19 148:11	158:20 159:9,22	166:7 174:10
53:14 61:8	148:24 156:25	160:8 162:24	175:23 177:20
93:23 97:1	157:3 163:11	163:4 164:3	182:13 210:4
125:21 127:17	179:25 180:2	166:17 185:2,3	trust 3:18 11:20
127:19 128:1	204:21 205:1	185:5,6,11,13	11:21 12:1,1,6
129:3,7,10,10	transfers 38:8	185:14,16,22,24	14:20 163:13
129:11 131:12	43:10,11,23	186:8,12,13,17	186:6 194:9
132:8 137:19	47:1,5,24 52:23	186:22,25,25	195:8 203:24
140:10,17 142:1	53:4,11,15,17	187:1,12 188:2	trustee 2:4,15
147:4,6,14,15	54:1,13,19	194:17 195:17	3:1,7,12 8:14
147:18,25 148:2	55:11,16,24,25	195:22,23,23	10:9,13,23 11:8
148:20 149:15	56:3,5,6,7,9,11	196:12,25 197:4	11:10,14,19,25
149:16 151:13	56:15,15,20,21	205:6 206:25	12:5 13:4 36:8
151:17 152:19	63:2,4,6 70:2,8	209:9,10	37:1 38:7,22
152:20 155:17	81:21,24 97:6	treatment 20:18	40:19 41:2,3,4
157:2,8,14,20	99:7 102:3	tremont 130:3	43:2 44:10
158:3 159:8	104:7,10 106:11	130:20,22 131:1	45:22 46:9,10
167:18 184:23	114:12,17,19,25	145:25 184:6	46:15 47:7 48:2
185:9 187:10,21	115:23 116:3,7	tremonte 15:9	48:7,19 49:14
189:14 197:12	116:13,20 117:7	96:12 130:5	49:18 50:10,13
204:20,24 205:4	118:5,16,24,25	trial 138:13	51:4 52:6,8,21
205:24,25 206:5	119:2,4,10,13	165:5 179:1,8	53:4,5,14,17,21
206:9,15,17,18	119:18 121:7,11	179:13 205:17	54:6,11,24 55:4
206:22 207:4,18	121:12,13,14	205:22 206:5,12	55:9,18 56:2,8

[trustee - ubs]

Page 64

56:12 58:9 59:1 59:5,7,16 60:19 61:1 62:14,15 62:17,18 63:3 65:5,16 66:8,19 67:4,8,23 68:14 69:16 70:1,16 70:18,24 75:7 77:2,16 80:3,21 81:11 82:17 83:25 84:23 85:7,8 86:3,4,16 86:22 87:19 88:9 90:10,12 90:18 91:14,17 91:21,23,24 94:7,20 97:3,5 97:11,19 98:8 98:15 99:5,24 100:13 101:2,18 103:1 104:4,19 105:6 106:8,10 106:22,24 107:5 107:16,21 108:4 108:18 109:11 109:23,25 110:21 111:8,19 114:10,18,22 115:16,23 116:2 116:6,8,21 117:3,6,11,22 118:4,6,9 119:21 120:21 122:9 123:19 124:24 125:9 126:20 129:22 130:11 132:12 132:15,25 134:3 134:6,9,11,13 134:22 135:10	135:13,14,17,24 136:3 137:18 139:12 140:22 140:25 141:1,4 141:7,9,19 145:24,25 146:22 147:13 147:24 148:14 149:23 152:15 153:6,24 154:14 155:7 185:1,7,8 186:25 187:25 188:14,16 191:21 192:7 195:21,23 196:4 198:15 201:25 202:1,2,4,13,17 202:24 203:16 203:23 204:5,18 204:23 205:23 206:5,6,10,24 207:1,2,6,16,20 207:24 208:18 trustee's 10:5,20 11:11 46:6 48:24 51:16,25 54:3,12 55:15 58:21,23 65:3 67:20 70:6 71:2 77:4 79:12 91:16 102:7 103:11,13 104:17 105:2 106:14 107:23 108:7 110:20,23 111:16,18 114:10,12,16 118:23 133:21 133:25 140:8 141:25 143:1	144:5 146:24 149:10 188:12 188:13 191:18 197:8 208:11 trustees 101:25 trusts 155:8 200:9 201:24,25 202:2,10 203:18 truth 170:10 171:7 172:5 truths 170:12 try 45:19 48:7 73:7 82:24 84:22 115:9 122:11 124:25 142:23 149:8 trying 41:12 48:21 68:3 77:24 82:10 86:12 102:1 143:15 144:14 144:24,25 145:19 163:18 195:24 200:7 turn 17:8 22:24 23:8 36:1 58:4 89:6 103:6 105:16 133:23 157:24 turned 76:14 94:12,12 97:13 turning 78:2 99:12 twice 150:14 two 16:15 17:8 18:3,18 20:9 23:11 35:11,11 38:9 40:23 52:24 71:11 73:25 75:2,7	81:9 106:11 114:13 123:3,23 124:24 125:6 126:18 129:18 130:15 153:11 153:13 155:8 160:6 161:11,20 162:11,15 163:5 181:2 183:17 184:15 186:8 203:3,3 204:19 204:20 206:15 206:17 208:24 twombly 160:4 160:15,16 161:13,20 162:20 170:6 171:5 188:22 tying 56:14 type 21:11 28:4 101:22 168:16 170:9 typically 66:12 138:14 148:5
			u
			u.s. 4:7 13:4 42:9 43:2 44:5 47:2,24 48:10 48:15 72:8 80:20 85:12 90:8 112:14 138:20 168:10 174:10,12 188:16 190:2,6 191:4,5,7 ubp 1:16,24 5:2 6:20 ubs 2:10,10 8:15 8:15 9:12,14,14 9:14,14,15

[ubs - usitalo]

Page 65

13:15 36:8,8,10 36:14,17,17,18 36:18 38:6,12 39:6,10,10,12 39:19 41:23,23 42:10,12,16 43:2,3,5,6,9,20 43:24 44:8,9,10 44:13,18 45:2 45:11,16,17,20 46:14,14 47:15 47:16,20,24 48:3,8,13,20,21 51:6 53:13,22 54:1,12,15,15 54:16,18,20,20 55:12,18,19,20 55:24 57:12,22 58:2,10,13,14 58:15,15,16,17 59:6,20,21,21 59:21 60:6,7 61:4,4,7,18,23 62:1,5,9,13,19 62:23 63:3,6,8,9 63:13,20 64:1,2 64:3,12,13,15 64:18,19,20,21 64:23,23 65:1,6 65:6,11,16,17 65:19,20,21,23 66:2,15,16,18 66:21,22,24 67:2,3,7,18,19 67:19,19 69:6 69:11,19 70:1,9 70:9,13,15,17 70:19,20,21,23 70:25 71:1,10 71:16 72:6,13	73:19 74:11 76:3,13 77:22 78:17 79:13,20 81:25 90:1 105:18,19,20,24 106:20 108:8,15 109:5,8,23 110:21,23,25 111:4,10 112:2 112:4,14,16,20 112:24 113:2,7 113:7,10,16,20 113:21 114:1 115:3,6,7,7,7,7 115:15,15,15,15 115:25 116:1,3 118:18 121:24 ubs's 57:18 111:3,8 ultimate 149:25 ultimately 22:20 82:1 176:5 ultra 130:17 unable 51:9 97:6 137:1 142:21 143:19 unanimously 136:21 unclear 101:3 unconscionable 108:23 undeniable 88:22 undeniably 91:6 undercuts 89:19 95:9 undergirding 182:5 underlying 91:16 95:22	162:17 undermine 184:9 underpinnings 127:4 underscore 179:23 understand 28:16 30:14 31:7 35:9,23,24 57:23 112:12 165:15 209:14 understood 57:14 undoubtedly 117:20 undue 25:24 unfair 206:20 unfiling 178:24 uniform 161:1 union 1:16,24 5:2 6:20 16:5,13 unique 49:11 united 1:1 3:23 5:11 6:8 7:4 8:3 10:1 20:24 21:3 21:7 24:22 26:8 28:1 33:15 39:3 39:5,21 40:3 41:25 42:2,3,15 43:6,21 44:18 44:21 46:5,7 47:5,6,11,11,13 47:25 48:1,1,2,6 49:2 59:10 60:18 63:2 72:2 76:4,5,6,9 77:13 77:24 78:10,19 78:21,23 79:5 80:2,5,6,8,9,10	80:19 81:13 82:20 83:15 85:17 86:24 93:19 94:20 155:10 162:8 190:5,13 191:9 191:12 193:24 196:14 universe 95:12 university 22:8 unknown 4:9 unquestionably 79:25 unquestioned 155:25 unrelated 97:23 99:2 144:14 146:10 151:16 151:21 unsuccessfully 42:20,21 upheld 133:5 138:21 upholding 144:5 urge 102:6 120:23 121:2 usbag 41:21 use 45:19 66:5 113:16 180:13 181:1,3 182:6,9 182:19,24 195:15,16 196:13,23 206:5 user 181:5 uses 66:10 usitalo 13:8 36:25 37:1 40:24 41:1,1 57:11,14 58:1,4 68:11 69:12,15
--	--	---	--

[usitalo - weiss]

Page 66

69:15,18,22,25 70:6 71:4,5,5,6 71:6,14 102:25 102:25 103:20 103:22 104:2 105:15,19,22 106:3 112:19,23 113:6,10,15,18 113:23 114:4,7 115:5,11 120:11 usitc's 108:14,17 usual 128:16,23 usually 23:13 utilize 151:16	119:9 vary 98:21 veil 81:1 83:12 veracity 171:8 verification 62:4 verify 78:10 veritext 210:20 versa 81:8 versus 98:6 196:17 203:23 vi 191:6 viable 177:18 vice 81:8 victoria 13:11 58:8 videoconference 5:13 6:10 7:6 8:4 9:17 10:2 12:2,11 view 20:14 21:13 23:18 24:25 25:11 174:21 176:5 198:18 viewed 88:11 114:9 200:22 viewing 66:18 86:14 views 176:2 villehuchet 8:24 8:25 9:1,2,3,3,5 9:5 37:14 73:21 87:2,21 96:7 105:5 110:13 112:12 115:19 violated 108:23 violates 25:20 virtually 189:2 vis 153:6,6	visit 90:19 visits 90:19 vital 67:9,11 164:1 208:19 voice 167:20 voices 50:15 volume 92:6 107:6 voluntarily 196:18,24 voluntary 195:16 w w 13:24 wait 30:8 92:5 159:2 206:14 waiting 154:20 waive 45:6 waived 44:10 45:13 walden 174:11 174:18 175:1 182:22 199:8 wallack 157:23 want 26:7,7,9 33:20 34:2,3,11 34:15 49:8 53:2 57:11,19 66:1 71:9 72:25 73:6 73:16 74:17 75:5 78:3 93:6,8 93:9 94:15 95:1 96:21 99:12 106:7 113:4,13 113:18 115:18 120:2 126:7 129:21 150:14 164:17 165:3 167:19 173:16 194:21 195:3	196:6 wanted 41:2,22 94:20 126:2,9 126:11 151:3 202:16 wants 72:6 171:21 177:13 199:4 warning 50:15 50:20 warrant 129:19 warren 172:15 warshavsky 10:8 13:9 37:3 water 167:6 way 24:4 42:4 42:24 44:3 76:13 83:5 100:17 101:1,3 104:16 111:19 123:12 133:3 136:11 160:19 160:25 161:9 163:18 181:21 196:20 ways 97:5 we've 17:10 24:8 27:4,15,16 33:22 49:9 51:4 55:2 56:13,24 93:18 103:14 106:18 118:12 195:9 201:19 weather 123:5 websites 84:24 week 20:8 weeks 19:2 20:9 33:24 weiss 139:23
v	v 1:15,23 2:9,20 3:6,17 5:2 6:20 8:15 10:13 11:9 12:6 16:5,6 22:8 36:8 74:3 84:20 88:2 117:11,14 118:3,22 119:8 119:8,11 123:15 138:20 139:20 139:23 141:15 142:12,20 147:11 154:7 157:23 163:12 168:10,11 170:20 171:24 174:11,11 180:9 180:19,20,21 183:23 184:1,10 value 46:1 62:3 101:5,9,11 102:10 140:1,3 143:23 various 14:5 80:18 86:12 114:24 116:9		

welcome 17:18 204:13	witnesses 205:20	3:20	95:10,11,16
went 52:14 81:25 82:14 83:1 123:7 125:8 127:3 130:25 146:12 153:19 186:19 195:18,24	wl 137:10 163:13	y	97:22 139:21 173:14 175:21 175:21 176:7,10 176:18,19,20,23 176:24 177:4,9 177:9,12,15 179:23 180:8,11 180:12,16,16,24 181:1,1,18,20 181:21 182:2,6 182:12,19,24 183:2,2,21 188:16,24 190:2 190:9,10,13 191:6,10,13,25 192:12,13,14 193:14,25 194:2 194:9,11,15 195:14,18,24 196:11,19,20,23 196:25 197:7 199:8,13,14,19 199:21 201:24
whatsoever 160:1	word 113:4 179:23	yale 22:8 yeah 28:20 29:6 35:18 57:6,7 71:11 98:22 102:23 120:3 124:12 194:23	york's 183:4,5 young 17:17
wholly 80:2 151:17	words 135:4 148:6 202:23 203:3	year 28:7 46:8 47:3 114:13 128:5 148:1 156:15 170:5 179:6 206:15,17	z
willful 52:10 111:21 120:17 120:18	work 41:11 61:18 67:15 73:18 80:4,18 81:10,19 83:2 87:14 95:25 100:18 176:1	years 16:19 17:9 23:11 46:23 52:24 55:5 106:11 156:7,12 161:20 169:2,3 177:25 205:6 207:3	zeb 14:24 204:2 zero 21:11 47:22 124:12,13 183:15 zeroes 183:14 200:12 zoom 120:8 zoomgov 5:13 6:10 7:6 8:5 9:17 10:3 12:2 12:11
willing 20:11 32:11 111:4	worked 61:24 working 65:16	york 1:2 3:25 13:6,17,25 14:7 14:15,22 15:5 15:13,21 35:13 60:3,14,16,20 61:16,17 62:24 62:25 63:14,19 63:24 64:7,10 65:18 66:25 67:9,16 75:13 75:15 77:18 81:15,23 82:24 84:16 86:10,21 87:6,10,24 88:10,16 89:2,8 89:20 90:13,15 90:19,21,23 91:8,10,12,20 92:11 94:13,22 94:23,25 95:2	
willingness 78:20	works 48:23		
winner 92:20 143:16	world 23:11 102:5 196:16 200:5		
wire 151:12	worth 111:6		
wired 199:12	would've 17:8 70:21		
wish 71:7 122:5 122:24 153:22 201:10 208:23	writing 19:13 written 19:22 123:2 154:1 209:17		
wishes 96:6	wrong 24:25 28:13 134:5 146:7,8 165:20		
withdrawals 144:10,12 145:17	wrongdoers 182:19		
withdrawn 144:9 179:12	wrongdoing 51:17 182:9 196:2		
withdrew 143:5 146:16	wrote 187:2		
withholding 109:12	x		
witness 19:20 25:25	x 1:4,10,12,18 1:20 2:1,3,12,14 2:23,25 3:9,11		

[à - à]

Page 68

à
à 153:6